

001150

BILDERBERG MEETINGS

Amstel 216

1017 AJ Amsterdam
The NetherlandsPhone +31 20 625 0252
Fax +31 20 624 4299

Date : 23 May 1996
To : The Hon. William J. Perry ✓
The Hon. Malcolm L. Rifkind
Mr. Carl Bildt
Mr. Richard C. Holbrooke
From : Maja Banck, Executive Secretary
About : Bilderberg conference: ✓
Your sessions on Friday May 31 1996

OFFICE OF THE
SECRETARY OF DEFENSE
Rm 1213 PM 3:49

Lord Carrington would like to discuss the procedure at your sessions with you and invite you to a breakfast meeting on Friday, May 31, at 7:30 a.m.

A table will be reserved for you in The Music Room at the CIBC Centre.

96-F-1203

UD 7568 196

H 824

RECEIVED

BILDERBERG MEETINGS

PHONE +31 20 625 0252

FAX +31 20 624 4299

DATE : 23 May 1996
TO : The Hon. William J. Perry
FAX NUMBER : 1.703.697.9080
FROM : Maja Banck, Executive Secretary
REF. # : 1659
SUBJECT : 1996 conference
PAGES TO FOLLOW : 1



W75 J51 -4 AT 10 40

American Friends of Bilderberg, Inc.

477 Madison Avenue, New York, N.Y. 10022 • (212) 752-0310 • Fax (212) 752-0315

Officers and Directors

John D. Whithead, President
 Casimir A. Yost, Secretary
 James G. Wollastohn, Treasurer
 Henry A. Kissinger
 David Rockefeller

February 9, 1996

The Honorable William J. Perry
 Secretary of Defense
 The Pentagon, Room 3E944
 Washington, D.C. 20301-1000
 FAX: (703) 697-7381

Dear Mr. Secretary:

I am delighted to hear from Vernon Jordan that you may be able to join us at the next Bilderberg Meeting to be held outside of Toronto, Canada on the evening of May 30 through lunch on Sunday, June 2, 1996. Melba Boling, in your office, indicated that you might be available for dinner on the 30th and the morning of the 31st.

May I suggest that you join us for dinner and then address the conference participants first thing on the 31st. I would be glad to work with your staff in identifying a topic for your remarks which fits comfortably into the agenda of the conference which will be focused on the political, economic, and security issues confronting the Atlantic community.

I am attaching a provisional list of attendees for your information. I would be pleased to respond to any questions you or your staff might have. I can be reached at Georgetown University at (202) 687-6279.

It will, of course, be a personal pleasure for me to see you again and to welcome you to Bilderberg.

Sincerely,



Casimir A. Yost
 Honorary Secretary General
 for the United States

Attachment

BILDERBERG MEETINGS International Steering Committee: Lord Carrington, Chairman
 Victor Nizkorovsk, Honorary Secretary General for Europe and Canada; Casimir A. Yost, Honorary Secretary General for U.S.

ALGERIA: Most Korbouari; BELGIUM: Etienne Davignon; CANADA: Conrad M. Black, Marie-Josée Drouin; DENMARK: Tøger Rasmussen; GERMANY: Christoph Barmann, Niklas Kopper, Frank R. Meier; FRANCE: André Lévy-Lang, Thierry de Montbrial; GREECE: Costa Cernaz; IRELAND: Peter D. Sutherland; ITALY: Umberto Agnelli, Niccolò Ruggiero; NETHERLANDS: Victor Nizkorovsk; NORWAY: Hildegarde Hauge; PORTUGAL: Francisco Pinto Balsemão; SPAIN: Jaime Caruana; SWEDEN: Percey Barmevik; SWITZERLAND: David de Pury; TURKEY: Selahattin Beyseki; UNITED KINGDOM: Andrew Knight, J. Martin Taylor; UNITED STATES: Paul A. Altius, Vernon E. Jordan, Jr., Louis V. Gerstner, Jr., Henry A. Kissinger, Lynn Shepherdson, John G. Whithead, James G. Wollastohn, Paul Wollastohn, Casimir A. Yost, THE ADVISORY GROUP: Giovanni Agnelli, Fritz H. von der Buegel, William R. Bundy, Anthony D.S. Griffin, Max Kohnstamm, David Rockefeller, Lord Ruff of Topham, Otto Wolf von Altenhausen

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**CONFIDENTIAL
NOT FOR CIRCULATION**

BILDERBERG MEETINGS

Toronto, Canada
May 30-June 2, 1996

LIST OF INVITEES

STATUS 31 January 1996

Chairman:

- ** Carrington, Peter Former Chairman of the Board, Christie's International plc;
Former Secretary General, NATO

Honorary Secretary General for Europe and Canada

- ** Halberstadt, Victor Professor of Public Economics, Leiden University

Honorary Secretary General for U.S.A.

- ** Yost, Casimir A. Director, Institute for the Study of Diplomacy, School of Foreign
Service, Georgetown University, Washington

AUSTRIA

- ** Kothbauer, Max Deputy Chairman, Creditanstalt-Bankverein
* Vranitzky, Franz Federal Chancellor

+ 1

BELGIUM

- ** Davignon, Etienne Executive Chairman, Societe Generale de Belgique; Former Vice
Chairman of the Commission of the European Communities
Dehaene, Jean Luc Prime Minister
Huyghebaert, Jan Chairman, Alcan-Kredietbank Group
Philippe, H.R.H. Prince

CANADA

- ** Black, Conrad M. Chairman, The Telegraph plc
** Demariais, Paul Chairman, Power Corporation of Canada
** Drouin, Marie-Josée Executive Director, Hudson Institute of Canada
** Flood, A.L. Chairman, Canadian Imperial Bank of Commerce
** Godish, Allan E. Former Ambassador to the United States of America
** Griffin, Anthony G.S. Honorary Chairman and Director, Guardian Group
** Harris, Michael Prime Minister of Ontario

+ 6

CZECH REPUBLIC

+ 1

- * = invited but not yet accepted
* = acceptance
T = tentative

31 January 1996

DENMARK

- ** Larsen, Holger
** Seidenfaden, Tøger

Chairman of the Board of Directors, The Danish Oil & Gas
Consortium
Editor in Chief, Politiken A/S

+ 1 out of the following 3

Andersen, Bodil Nyboen
Billemann-Jensen, Uffe
Lykkeskov, Mogens

Governor, Central Bank
Member of Parliament
Minister of Finance

FINLAND

- ** Rontemi, Marko

Managing Director, Centre for Finnish Business and Policy
Studies; Former Ambassador to the United States of America

+ 2

FRANCE

- ** Lévy-Leang, André
** Manthral, Thierry de

Chairman of the Board of Management, Banque Paribas
Director, French Institute of International Relations; Professor of
Economics, Ecole Polytechnique

+ 4

GERMANY

- ** Bertram, Christoph
** Castellieri, Ulrich
** Hoyer, Werner
** Schrenpp, Jürgen E.
** Schröder, Gerhard
** Strube, Jürgen
** Wolff von Amerongen, Otto

Diplomatic Correspondent, Die Zeit; Former Director
International Institute for Strategic Studies
Member of the Board, Deutsche Bank A.G.
Secretary General FDP
Chairman of the Board of Management, Daimler-Benz AG
Prime Minister of Lower Saxony
CEO, BASF Aktiengesellschaft
Chairman and CEO of Otto Wolff GmbH

+ 1

GREECE

- ** Cerna, Costa
** Vasiliou, Evangelos

Director of Companies
Minister of Transport and Communications

+ 1

HUNGARY

- ** Surányi, Özgür

President, National Bank of Hungary

ICELAND

- * Oddsson, David

Prime Minister

INTERNATIONAL

- ** Bidi, Carl

EC Mediator, International Conference on Former Yugoslavia

31 January 1996

- * Broek, Hans van den
- ** Kolmanen, Max
- * Miert, Karel van
- ** Monti, Mario
- ** Schwab, Klaus

Commissioner, European Communities
Former Secretary General, Action Committee for Europe; Former
President, European University Institute
Commissioner, European Communities
Commissioner, European Communities
President, World Economic Forum

IRELAND

- ** Sutherland, Peter D.

Chairman and Managing Director, Goldman Sachs International;
Former Director General, World Trade Organization

+1

ITALY

- ** Agnelli, Giovanni
- ** Agnelli, Umberto
- ** Bernabè, Franco
- ** Veltroni, Walter

Chairman, Fiat S.p.A.
Chairman IFIL
Managing Director and CEO, Ente Nazionale Idrocarburi
Editor, L'Unità

ITALY/INTERNATIONAL

- ** Ruggiero, Renato

Director General, World Trade Organization; Former Executive
Vice-Chairman of the International Advisory Board, Fiat S.p.A.;
Former Minister of Trade

LUXEMBURG

- ** Thorn, Gaston E.

President Director General, CLT

THE NETHERLANDS

- ** Baugel, Ernst H. van der

Emeritus Professor of International Relations, Leiden University;
Former Honorary Secretary General of Bilderberg Meetings for
Europe and Canada

- ** Bolkestein, Pim

Parliamentary Leader VVD

- ** Korteweg, Pieter

President and CEO, Robeco Group; Honorary Treasurer
Bilderberg Meetings

- ** Netherlands, Her Majesty the Queen of the

- ** Tobolskii, Morris

Chairman of the Board, Unilever N.V.

NORWAY

- ** Høegh, Wayne

Chairman of the Board, Løff Høegh & Co. A.S.; President,
Norwegian Shipowners' Association

- ** Jørgensen, Torbjørn

Chairman, Labour Party

- ** Petersen, Jan

Parliamentary Leader, Conservative Party

POLAND

- ** Cichowski, Andrzej

Chairman of the Supervisory Board, Bank Handlowy W
Warszawie S.A.; Former Minister for Foreign Affairs

PORTUGAL

- ** Balsemão, Francisco Pinto

Professor of Communications Science, New University, Lisbon;
Chairman, Sotjornal set; Former Prime Minister

31 January 1996

** Outeiro, Antonio
** Marante, Margarida

Prime Minister
TV Journalist

SPAIN

** Curvajal Urquijo, Jaime
** Ruiz Gallardon, Alberto
** Spain, N.M. the Queen of
Westlandorp, Carlos

Chairman and General Manager, Inerfontem
President of the Government of Madrid

Minister for Foreign Affairs

SWEDEN

** Barnevik, Percy
** Selin, Moss
** Wallenberg, Marcus

President and Chief Executive Officer, ABB Asia Brown Boveri
Ltd.
Member of Parliament
Investor AB

SWITZERLAND

** Cotti, Flavio
** Pury, David de
** Sommaruga, Corrado

Minister for Foreign Affairs
Chairman, BBC Brown Boveri Ltd. and Co-Chairman, ABB Asia
Brown Boveri Group
President, International Committee of the Red Cross

TURKEY

** Beyazit, Selahattin

Director of Companies

+2

UNITED KINGDOM

** Job, Peter
** Knight, Andrew
** Monico, John
** Roll, Eric
** Taylor, J. Martin

Chief Executive, Restory Holding PLC
Non Executive Director, News Corporation
General Secretary, Trades Union Congress (TUC)
Senior Advisor, BBC Warburg
Chief Executive, Barclays Bank plc

+3 out of the following 4

Alexander, Bob
Cock, Robin
Riddick, Malcolm
Vallance, Loin

Chairman, National Westminster Bank PLC
Shadow Foreign Secretary
Deputy Secretary
Chairman, British Telecommunications PLC

UNITED STATES

** Allaire, Paul A.
** Andross, Dwayne
** Bryan, John H.
** Dunphy, William P.
** Coraine, Jan S.
** Eison, Robert J.
** Feldstein, Martin S.
** Fischer, Stanley
** Donald Fites
** Geyser, Jr., Louis V.

Chairman, Xerox Corporation
Chairman, Archer-Daniels-Midland Company
Chairman and CEO, Sun Life Corporation
Former Editor, Foreign Affairs
Senior Partner and Chairman, Goldman Sachs & Co.
Chairman, Chrysler Corporation
President, National Bureau of Economic Research
First Deputy Managing Director, International Monetary Fund
Chairman and CEO, Caterpillar, Inc.
Chairman, IBM Corporation

BILDERBERG MEETINGS

PHONE +31 20 625 0252

FAX +31 20 624 4299

1996 MAY -9 10:11

OFFICE OF THE
SECRETARY OF DEFENSE

DATE : 9 May 1996
TO : The Hon. William J. Perry
FAX NUMBER : 1.703.697 9080
FROM : Maja Banck, Executive Secretary
REF. # : 1375
SUBJECT : Agenda Toronto Conference
PAGES TO FOLLOW : 1

Annexed is the preliminary agenda for the forthcoming Bilderberg Meeting, near Toronto, May 30-June 2, 1996.

Early next week the current list of participants and four background papers will be mailed to you.

DECLASSIFIED BY AUTHORITY OF

Principal Deputy - C. W. D. W. 40

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DATE CASE #

CONFIDENTIAL

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Sec Def Com No.

06/1/96

9MAY96

NOT FOR CIRCULATION

BILDERBERG MEETINGS

CIBC Centre, King City, near Toronto, Canada
May 30-June 2, 1996

PRELIMINARY AGENDA

9 May 1996

STATUS REPORT ON THE ALLIANCE

SPEAKERS

MODERATORS

William J. Perry [US]

Peter Carrington

FORMER YUGOSLAVIA

Carl Bildt [S]

Peter Carrington

Richard C. Holbrooke [US]

RUSSIA: POLITICAL FORCES AND ECONOMIC PROSPECTS

Andrei Lukoni [S], background paper
Frans Vranitsky [A]

Christoph Bertram

EUROPE: THE POLITICS OF EU ENLARGEMENT

Timothy Garon Ash [GB], background paper
Pierre LeLouché [F]
György Szágyó [H]

Peter D. Sutherland

HAS EUROPE'S ECONOMY RUN OUT OF STEAM?

Perey Ramevik [S]
Ulrich Castellani [D]

THE US AGENDA

Paul A. Gigot [US]
George Stephanopoulos [US]

Conrad M. Black

ARE THERE LIMITS TO GLOBALIZATION?

Martin S. Feldstein [US]
John Merton [GB]
Sylvia Ostry [CAN], background paper

Umberto Agnelli

WHERE IS CHINA GOING?

Chas. W. Freeman, Jr. [US], background paper
Henry A. Kissinger [US]
Winston Lord [US]

Henry A. Kissinger

WTO AND WORLD BANK: BRIEFING

Renato Ruggiero [INT]
James D. Wolfensohn [INT]

Venice E. Jordan, Jr.

CURRENT EVENTS

PLEASE NOTE: • the program may undergo changes • the order of sessions will only be decided on the eve of the conference

DECLASSIFIED BY AUTHORITY OF

DATE

CASE #

2
001100

BILDERBERG MEETINGS

Amstel 216
1017 A.J. Amsterdam
The Netherlands

Phone: +31 20 624 0252
Fax: +31 20 624 4299
SECRET

1996 APR -2 PM 4:31

The Hon. William J. Perry
Secretary of Defense
U.S. Department of Defense
The Pentagon
WASHINGTON, D.C. 20301-1000
U.S.A.

18 March 1996

Subject: Bilderberg Meeting near Toronto, Canada from the evening of Thursday,
May 30 through lunch on Sunday, June 2, 1996

Dear Mr. Perry,

Thank you for confirming your participation in the forthcoming conference.
I am pleased to enclose:

1. The current list of participants. If you wish to have changes made in the way your affiliation is mentioned, please let me know before May 15; the suggested corrections will then be made in the next version.
2. The preliminary agenda.
3. The notice to participants, detailing various arrangements.
4. A travel advisory form. Please **do follow the instructions about completing this form and return it as soon as possible by fax to the Bilderberg office in Amsterdam (fax nr. +31 20 624 4299).** This will assure prompt reception at points of arrival, timely transportation and smooth departure.

UO 4668 196

11.11.1996

5. Special Bilderberg labels for rapid identification at the reception points; please attach these to all your luggage.
6. A copy of your biography which we have on file. Please return it to me with any changes you may wish to make, or advise me that it may be used as it is for the 1996 Profiles of Participants which, as you know, will be distributed to all participants at the conference.

I would like to take this opportunity to ask you to send me

- a copy of a recent passport photograph, marking your name on the back. The photograph will appear on your security badge.

Please note that all participants are expected to stay through the entire conference and to join in all of the conference programme, which begins Thursday before dinner.

Participants are strongly urged **not to bring personal staff** unless prior agreed with the Honorary Secretary General.

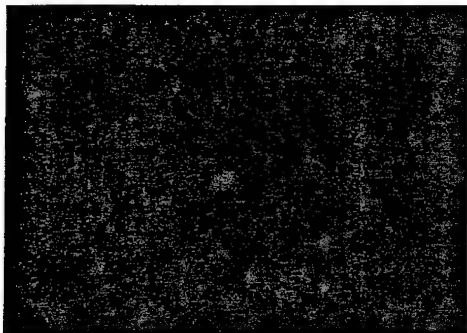
Please do not hesitate to contact me if you have any questions about the conference.

Yours sincerely,



Maja Banck (mrs.)
Executive Secretary

Enclosures



CHARACTER OF MEETING

- Participants are expected to stay through the entire conference and to join in all of the conference programme (which begins Thursday before dinner), unless otherwise agreed with the Chairman.
- The meetings do not formulate policies or reach conclusions, and no resolutions are submitted for discussion or vote.
The sole purpose of the debate is to have an exchange of views about the issues on the agenda, from which participants are free to draw their own conclusions.
- Participants attend in a private capacity, irrespective of their official position.
Fruitful discussions are enhanced by an atmosphere of mutual trust in which participants can express themselves freely. **All discussions are therefore private and off-the-record**, the press is excluded from the meetings.
- A list of participants and the agenda will be made available to the press the day the conference starts.
Participants are expected not to give interviews to the press during the meeting. A point which should be strictly adhered to in contacts with the news media, is that no attribution should be made to individual participants of what was discussed during the meeting.
- The summary report of the conference includes the names of all participants and opinions are summarized, speakers are not referred to by name. This report is circulated only to participants, former participants of the Bilderberg Meetings and sponsors.

CONFERENCE PROGRAMME 1996

- Participants should plan to arrive at the CIBC Centre on Thursday, May 30. Drinks will be served from 19.00; buffet dinner will be served from 20.00. Working sessions start daily at 08.30 and end before dinner, with a recreation break on Saturday from lunch till 17.00
- The closing session on Sunday will take place from 8.30 until 11.00. Buffet lunch will be served at 12.00 noon.

PLACE OF THE MEETING

The meeting will be held at the CIBC Centre, King City, near Toronto, Canada. The full address is:

CIBC Centre
12750 Jane Street
R.R. # 1
King City, Ontario L0G 1K0
Canada
Phone +1.905.833 3086
Fax +1.905.833 3075

The CIBC Centre has been reserved exclusively for the meeting and all activities will take place there.

Weather in June is usually pleasant, but the evenings tend to be chilly. Guests should bring a sweater and/or a raincoat.

ACCOMPANYING AND SECURITY STAFF

Participants are strongly urged not to bring personal staff. However, participants who must be accompanied by personal staff should be aware that staff cannot attend sessions nor share meals at participants' tables: a separate dining room will be provided.

Accompanying personal and security staff will be accommodated at their own expense.

SPOUSES

It is emphasized that participants may not bring spouses to Bilderberg Meetings. Our staff is prepared to assist spouses travelling with participants in finding suitable accommodation elsewhere.

EXPENSES

- Rooms, meals, wines, and pre-dinner cocktails will be provided free of charge to participants from dinner on Thursday, May 30 through lunch on Sunday, June 2.
- Personal charges, such as telecommunication, laundry, room service, bar bills etc. will be at participants' own expense.

CONFERENCE PORTFOLIOS

On arrival participants will receive detailed information on the schedule and procedures of the conference, lay-out of the site, seating arrangements in the conference room, the final list of participants, and other supporting information.

CONFERENCE LANGUAGE

The official language of the conference is English.

RECREATION

The CIBC Centre offers an indoor and outdoor swimming pool, a tennis, squash and racketball court, a jogging track and fitness rooms.

TRANSPORTATION AND RECEPTION

- The CIBC Centre is at about 20 minutes drive by car from Toronto Airport. Participants are expected to make their own travel arrangements to the reception point in Toronto and from this point to their next destinations. Transport will be provided by the host country between the reception/departure point and the CIBC Centre.
- Participants arriving by commercial and private planes will be met at Toronto Airport by hostesses who will show the Bilderberg symbol (similar to the Bilderberg luggage labels enclosed). A participant who fails to make contact with a hostess should telephone the Bilderberg Transportation Desk at the CIBC Centre.

Phone +1.905.833.3086

Fax +1.905.833.3075

Security requires that all participants attach the enclosed Bilderberg labels to all their luggage, including their hand luggage

BILDERBERG MEETINGS

CIBC Centre, King City, near Toronto, Canada
May 30-June 2, 1996

TRAVEL ADVISORY FORM

NAME and initials _____

ADDRESS _____

TELEPHONE _____ TELEFAX _____

ARRIVAL INFORMATION

☐ **AIR**
Date of arrival _____ Time of arrival _____

From _____ Airline and flight number _____ Private aircraft _____

Place of arrival _____

☐ TORONTO ☐ OTHER _____

☐ **ROAD**
Date of arrival _____ Expected time of arrival at CIBC Centre _____

Car _____ Registration number _____ Name of driver _____

DÉPARTURE INFORMATION

☐ **AIR**
Date of departure _____ Time of departure _____

Airport _____ Destination _____

Airline and flight number _____ Private aircraft _____

☐ **ROAD**
Date of departure _____ Time of departure from CIBC Centre _____

INSTRUCTIONS

- All participants are requested to complete this form and return it by fax to: Bilderberg Meetings, Amsterdam, The Netherlands
Fax nr.: +31 20 634 4299
- Advise promptly any change in previously reported travel information to ensure being met on arrival at the reception points in Toronto.
- Attach Bilderberg travel labels to ALL your luggage including your hand luggage, to facilitate reception arrangements at points of arrival.

SIGNATURE _____ DATE _____

William J. Perry

William Perry (1927) was sworn in as Secretary of Defense in February 1994, having served as Deputy Secretary since March 1993. Prior to these positions he was Chairman of Technology Strategies Alliances; Professor, School of Engineering, Stanford University; and Co-Director, Stanford's Center for International Security and Arms Control. From 1977 to 1981 Dr. Perry was Under Secretary of Defense for Research and Engineering responsible for weapon systems procurement and all research and development. His prior career includes: Founder and President, ESL Inc.; Director, Sylvania/General Telephone's Electronic Defense Laboratories; and Executive Vice President, Hambrecht and Quist Inc. Dr. Perry is a member of the National Academy of Engineering and a fellow of the American Academy of Arts and Sciences. He has served as a Director, FMC Corporation and United Technologies, and has been a trustee of the Carnegie Endowment for International Peace. He served on the President's Foreign Intelligence Advisory Board and the Technical Review Panel of the U.S. Senate's Select Committee on Intelligence, was a member of the Carnegie Commission on Science, Technology and Government, and the Committee on International Security and Arms Control, National Academy of Science. Dr. Perry received his B.S. and M.S. from Stanford University and his Ph.D. from Penn State (all in mathematics).

B Davignon, Etienne

CDN Drouin, Marie-Josée

CDN Eaton, Fredrik S.

DK Ellermann-Jensen, Uffe

USA Feldstein, Martin S.

INT Fischer, Stanley

USA Fites, Donald

CDN Flood, A.L.

GB Garton Ash, Timothy J.

USA Gerstner, Jr., Louis V.

USA Gigot, Paul

CDN Gottlieb, Allan E.

USA Greenberg, Maurice

CDN Griffin, Anthony G.S.

CDN Harris, Michael

N Høegh, Westye

USA Holbrooke, Richard

D Hoyer, Werner

B Huyghebaert, Jan

FIN Iloniemi, Jaakko

N Jagland, Torbjørn

GB Job, Peter

USA Jordan, Jr., Vernon E.

USA Kissinger, Henry A.

GB Knight, Andrew

INT Kobustamm, Max

NL Korteweg, Pieter

A Kothbauer, Max

USA Kravis, Henry R.

DK Lavesen, Holger

F Leifouche, Pierre

F Léry-Lang, André

USA Lord, Winston

P Marante, Margarida

B Maystadt, Philippe

USA McHenry, Donald F.

F Messier, Jean-Marie

GB Monks, John

F Montbrial, Thierry de

INT Monti, Mario

NL Netherlands, Her Majesty the Queen of the

ICE Oddsson, David

PL Olechowski, Andrzej

CDN Orry, Sylvia

GR Pangalos, Theodoros

USA Perry, William J.

Executive Chairman, Société Générale de Belgique; Former Vice

Chairman of the Commission of the European Communities

Executive Director, Hudson Institute of Canada

Chairman Executive Committee, Eaton's of Canada

Member of Parliament

President, National Bureau of Economic Research

First Deputy Managing Director, International Monetary Fund

Chairman and CEO, Caterpillar, Inc.

Chairman, Canadian Imperial Bank of Commerce

Foreign Editor, The Spectator

Chairman, IBM Corporation

Columnist, The Wall Street Journal

Former Ambassador to the United States of America

Chairman, American International Group, Inc.

Honorary Chairman and Director, Guardian Group

Prime Minister of Ontario

Chairman of the Board, Leif Høegh & Co. AS; President, Norwegian

Shipowners' Association

Former Assistant Secretary for European Affairs

Secretary General FDP

Chairman, Almanij-Kreditbank Group

Managing Director, Centre for Finnish Business and Policy Studies,

Former Ambassador to the United States of America

Chairman, Labour Party

Chief Executive, Reuters Holding PLC

Senior Partner, Akin, Gump, Strauss, Hauer & Feld, LLP (Attorneys-at-

Law)

Former Secretary of State; Chairman, Kissinger Associates, Inc.

Non Executive Director, News Corporation

Former Secretary General, Action Committee for Europe; Former

President, European University Institute

President and CEO, Robeco Group; Honorary Treasurer Bilderberg

Meetings

Deputy Chairman, Creditanstalt-Bankverein

Founding Partner, Kohlberg Kravis Roberts & Co.

Chairman of the Board of Directors, The Danish Oil & Gas Consortium

Member of the National Assembly

Chairman of the Board of Management, Banque Paribas

Assistant Secretary for East Asian and Pacific Affairs

TV Journalist

Minister of Finance

Research Professor of Diplomacy and International Affairs, Georgetown

University

CEO and Chairman of the Executive Committee, Compagnie Generale

des Eaux

General Secretary, Trades Union Congress (TUC)

Director, French Institute of International Relations; Professor of

Economics, Ecole Polytechnique

Commissioner, European Communities

Prime Minister

Chairman of the Supervisory Board, Bank Handlowy W Warszawie

S.A.; Former Minister for Foreign Affairs

Chairman, Centre for International Studies, University of Toronto

Minister for Foreign Affairs

Secretary of Defense

N	Petersen, Jan	Parliamentary Leader, Conservative Party
USA	Pickering, Thomas R.	US Ambassador to Russia
CH	Pury, David de	Director of Companies; Former Co-Chairman of the ABB Group and former Ambassador for Trade Agreements
GB	Ridkind, Malcolm L.	Foreign Secretary
GB	Robertson, Simon	Chairman, Kleinwort Benson Group plc
USA	Rockefeller, David	Chairman, Chase Manhattan Bank International Advisory Committee
CDN	Rogers, Edward S.	President and CEO, Rogers Communications Inc.
GB	Roll, Eric	Senior Adviser, SBC Warburg
INT	Ruggiero, Renato	Director General, World Trade Organization; Former Minister of Trade
S	Sahlén, Mona	Member of Parliament
D	Schrempf, Jürgen E.	Chairman of the Board of Management, Daimler-Benz AG
INT	Schwab, Klaus	President, World Economic Forum
DK	Seidenfaden, Tøger	Editor in Chief, Politiken A/S
USA	Sheinkman, Jack	Chairman of the Board, Amalgamated Bank
CH	Sommaruga, Cornelio	President, International Committee of the Red Cross
USA	Soros, George	President, Soros Fund Management
E	Spain, H.M. the Queen of	
USA	Stephanopoulos, George	Senior Advisor to the President
D	Strube, Jürgen	CEO, BASF Aktiengesellschaft
H	Szabó, György	President, National Bank of Hungary
IRL	Sutherland, Peter D.	Chairman and Managing Director, Goldman Sachs International; Former Director General, World Trade Organization
NL	Tabaksblat, Morris	Chairman of the Board, Unilever N.V.
GB	Taylor, J. Martin	Chief Executive, Barclays Bank plc
LUX	Thorn, Gaston E.	President Directeur Général, CLT
D	Töpfer, Klaus	Federal Minister for Regional Planning, Building and Urban Development
USA	Trotman, Alexander J.	Chairman, Ford Motor Company
I	Veltroni, Valter	Editor, L'Unità
P	Vitorino, António	Deputy Vice President and Minister of Defence
D	Voscherau, Henning	Mayor of Hamburg
A	Vranitzky, Franz	Federal Chancellor
S	Wallenberg, Marcus	Executive Vice President, Investor AB
USA	Weiss, Stanley A.	Chairman, Business Executives for National Security, Inc.
E	Westendorp, Carlos	Minister for Foreign Affairs
CDN	Weston, Galen	Chairman, George Weston Limited
USA	Whitehead, John C.	Former Deputy Secretary of State
CDN	Wilson, L.R.	Chairman, President and CEO, BCE Inc.
INT	Wolfensohn, James D.	President, The World Bank; Former President and CEO, James D. Wolfensohn, Inc.
D	Wolff von Amerongen, Otto	Chairman and CEO of Otto Wolff GmbH
USA	Wolfowitz, Paul	Dean, Nitze School of Advanced International Studies; Former Under Secretary of Defense for Policy

Observers

NL	Orange, H.R.H. the Prince of
B	Philippe, H.R.H. Prince

Rapporteurs

GB	Micklethwait, John	Business Editor, The Economist
USA	Victor, Alice	Executive Assistant, Rockefeller Financial Services, Inc.

In Attendance

NL Maja Banck
 CDN Mary Alice Carroll
 USA Charles W. Muller

Executive Secretary, Bilderberg Meetings
 Local Organizer 1996
 President, Murden and Company; Adviser, American Friends of
 Bilderberg, Inc.

List of Abbreviations

A Austria
 B Belgium
 CDN Canada
 CH Switzerland
 D Germany
 DK Denmark
 E Spain
 F France
 FIN Finland
 GB Great Britain
 GR Greece
 H Hungary

I Italy
 ICE Iceland
 INT International
 IRL Ireland
 L Luxembourg
 N Norway
 NL Netherlands
 P Portugal
 PL Poland
 S Sweden
 TR Turkey
 USA United States of America

32a Ovington Square
London SW3 1LR
Tel. 0171-5841-4243
Fax. 0171-823-9051

OFFICE OF THE
SECRETARY OF DEFENSE

1996 MAY 13 PM 1:49

13 May 1996

Fax to The Hon William J Perry
Secretary of Defense
001 703 697 9080

From Lord Carrington

Pages 2

John F. Perry

I am so glad that you can come to Toronto. This is very good news for all of us, and you will get a very warm welcome.

I don't know whether you have been to Bilderberg before, but I enclose the house rules which may be of some use to you.

With best wishes,

Lord Carrington

Lord Carrington

U06866 / 96

BILDERBERG MEETINGS

Amstel 216

1017 AZ Amsterdam
The Netherlands

Phone +31 20 628 0222

Fax +31 20 624 4299

BY FAX

Date : 10 May 1996
To : Peter Carrington, moderator
William J. Perry
From : Victor Halberstadt
About : Your session about The Alliance at the Toronto Conference

It is much appreciated that you have agreed to moderate or be panelist in the session on Status Report on The Alliance at the upcoming conference.

Though you all know Bilderberg well, I need to ask your attention for the following:

1. It is a tradition of Bilderberg that there are no formal speeches and no read texts; experience shows that spontaneous presentations are most successful. Most of the session is to be devoted to an active discussion among panelists and participants.
2. Moderators are strongly encouraged to really lead the debate from a substance point of view; the discussion should be kept within the framework of key questions outlined briefly at the start of your session.
3. The moderator is asked to summarize the rules for interventions at the opening of the session to make sure that all attendees understand the strict application of the 1, 3 and 5 minute system. Moderators should only permit "1-minute interventions" which are really addressed to the points then being discussed.
4. Introductory statements by the panelists cannot exceed 10 minutes as you already know from the letters confirming your participation. Please keep in mind that all sessions are relatively short. Your session is 80 minutes.
5. The moderator should make sure that sessions begin and end exactly on schedule; this also applies to the breaks for coffee and tea. Ms. Marijke de Vogel of the Secretariat is responsible for your session; she will contact you upon your arrival at the conference and assist you with any arrangement before the session.
6. We expect that the moderator, in this case Peter Carrington, will want to coordinate with each of the panelists well in advance of the conference in order to ensure a successful session; phone and fax numbers are annexed.

31 January 1996

00 Greenberg, Maurice
 01 Holbrooks, Richard
 02 Jordan, Jr., Vernon R.

03 Kissinger, Henry A.
 04 Kravis, Henry R.
 05 Lord, Winston
 06 McHenry, Donald F.

07 Rosenfeld, David

08 Sarbanes, Paul S.
 09 Steinbrenner, Jack
 10 Snow, Olympia
 11 Sora, George
 12 Stephanopoulos, George
 13 Trotman, Alexander J.
 14 Wheeler, Douglas
 15 Whithead, John C.
 16 Whitman, Christine
 17 Wilson, Pete
 18 Wolfensohn, James D.

19 Wolfowitz, Paul

20 Zoellick, Robert

Observer

00 Orange, H.R.H. the Prince of

Chairman, American International Group, Inc.
 Assistant Secretary for European Affairs
 Senior Partner, Alkin, Gump, Strauss, Hager & Field, LLP
 (Attorneys-at-Law)
 Former Secretary of State; Chairman, Kissinger Associates, Inc.
 Founding Partner, Kohlberg Kravis Roberts & Co.
 Assistant Secretary for East Asian and Pacific Affairs
 Research Professor of Diplomacy and International Affairs,
 Georgetown University
 Chairman, Chase Manhattan Bank International Advisory
 Committee
 Senator (Democrat, Maryland)
 Chairman of the Board, Amalgamated Bank
 Senator (Republican, Maine)
 President, Soros Fund Management
 Senior Advisor to the President
 Chairman, Ford Motor Company
 Secretary, National Resources, CA
 Former Deputy Secretary of State
 Governor
 Governor of California
 President, The World Bank; Former President and CEO, James D.
 Wolfensohn, Inc.
 Dean, Niess School of Advanced International Studies; Former
 Under Secretary of Defense for Policy
 Executive Vice President, Federal National Mortgage Ass.;
 Former Counselor of the Department of State

Business Executives
for National Security, Inc.
1675 L Street, N.W.
Suite 300
Washington, D.C. 20036
(202) 796-2125
(202) 796-2490 FAX

OFFICE OF THE
SECRETARY OF DEFENSE

1675 JUN -6 PM 9: 23



June 3, 1996

The Honorable
William J. Perry
Secretary of Defense
U.S. Department of Defense
The Pentagon
Washington, D.C. 20301-1000

Dear Bill,

It was great seeing you again at Bilderberg.

The session on defense was a highlight. In fact, I found the most interesting discussions were those featuring "practitioners" who face decisions every day.

Look forward to seeing you soon again.

Best regards,

57
Stanley A. Weiss
Chairman

PS We continue to hear rave reviews about the Eisenhower Dinner in your honor.

0011SD

3 JUN 96

U06237 196



INTERNATIONAL
SECURITY AFFAIRS

6/12
OFFICE OF THE ASSISTANT SECRETARY OF DEFENSE

2400 DEFENSE PENTAGON
WASHINGTON, D.C. 20301-2400



17 JUN 1996

Professor Klaus Schwab
President, World Economic Forum
53 chemin des Hauts-Crets
CH-123 Cologny/Geneva
Switzerland

Dear Professor Schwab:

Thank you for your kind invitation to Secretary of Defense Perry to participate in your next World Economic Forum, scheduled for 30 January - 4 February 1997. Unfortunately, Secretary Perry cannot make a commitment to join you for your forum. We are well aware of the outstanding reputation of the World Economic Forum and regret that we will be unable to join you. If new developments arise, we will initiate contact. In the meantime, we wish you all the best for a successful conference.

Sincerely,

Robert T. Osterthaler, BG, USAF
Acting Deputy Assistant Secretary of Defense
for European and NATO Affairs

0011 SD

16 JUN 96

6

UOE633-96

675 JUL 12 PM 2:38

Professor Klaus Schwab
President

The Honourable William Perry
Secretary of Defence
Department of Defence
The Pentagon, Room 3 E 944
USA WASHINGTON, DC 20301-6352

6 June 1996 / sh

Dear Mr. Secretary,

Your presentation at the recent Bilderberg Meeting was very convincing and impressive.

It is now my great pleasure and honour to invite you to join the 1997 Annual Meeting of our members and constituents, which will take place in Davos, Switzerland, from 30 January to 4 February.

The issues of creating a comprehensive security architecture for Europe will be certainly at the forefront of our discussions at our Annual Meeting in Davos next year. In particular, we are planning a session to which we would like to invite the Russian Minister of Defence at the time of the Annual Meeting and Minister Rube to discuss together with you in detail such issues as preventive defence and in general the role of the military at the beginning of the 21st century.

Your presence in Davos would provide you with a unique opportunity to deliver a strong message on these or other issues of most concern to you and the United States. Your views and expertise would be greatly valued by the 1000 chief executives of the world's largest companies and the foremost leaders from government, academia and the media who participate in our Annual Meeting each year.

We would be pleased to discuss the details of your specific role at Davos with your office in coming months, but I hope you will reserve for us in your agenda the prolonged weekend of 31 January to 2 February 1997.

I look forward to the possibility of welcoming you in Davos at the beginning of next year.

Yours sincerely,



Private events

You may receive invitations to private events taking place in Davos on the margins of the Annual Meeting; these clearly reinforce the networking character of such a gathering. As such events sometimes conflict with a session or dinner of the Annual Meeting you may wish to check the official programme before accepting private invitations.

Member companies of the World Economic Forum who wish to take advantage of the presence in Davos of their chief executive and that of many of their clients, suppliers and other partners (actual or potential) to host an event or meeting of their own at the very end of the Annual Meeting should contact us.

Should individual participants wish to organize a lunch, dinner or reception, please note that:

- * only events in the official programme can take place in the Congress Centre
- * your office should inform us on which day the event is planned, in which hotel and the number of participants invited
- * the printed list of participants and their organizations is sent to participants in advance of the meeting
- * replies to your invitations should be addressed directly to your office
- * invitations should be personally addressed, in the spirit of Davos
- * participants' pigeonholes in the Congress Centre cannot be used for large-scale distribution of material.

Guidelines: essential reading for participants

The spirit of Davos

The Annual Meeting is known for its direct, personal, highest-level interaction among participants.

Participants are encouraged to initiate as many individual contacts and discussions as possible, taking full advantage of the meeting's networking and information system (electronic, printed and personal contact services).

Through this system, participants should feel they belong to the same club and should respect each other's time and integrity. There must be no unsolicited selling of products or services at the Annual Meeting, nor to its participants at a later date. No promotional or advertising material is distributed through our official channels. Any participant disturbed by inappropriate approaches should bring the matter to our attention.

The Davos club: rules of the game

The Annual Meeting brings together chief executives of the world's foremost companies with leaders from government, academia, science, culture and the media.

accompanying staff

Since the meeting's purpose is to facilitate and foster personal contacts at the highest level, we strongly advise that participants should not come to Davos accompanied by members of their staff.

Accompanying staff is in principle not admitted to the Congress Centre.

Global Event Management (GEM), our operations partner, cannot make available accommodation for staff in the same hotel as the person they accompany since all available rooms are strictly reserved for participants. They will however provide information on accommodation in exceptional cases where a participant is obliged to have accompanying staff in the Davos vicinity.

electronic message service

Networking among club members will only be successful if the rules of the game are respected: the electronic message service of the Annual Meeting is restricted to registered participants only and in no circumstances can be accessed by third parties.

corporate documentation

Participants are free to display their annual reports or other relevant documentation in the area reserved in the Congress Centre for participants' documentation. But just as we restrict electronic messages to a person-to-person basis, we deliberately limit the amount of material distributed to participants' pigeonholes so that there shall be no unnecessary solicitation.

confidentiality

The Annual Meeting commands a certain media impact. Reporters from leading media worldwide (newspapers, business magazines, radio and television stations) are accredited, under strict rules enforced by our staff. Should you feel disturbed by the reporting media, please let us know immediately.

Our Press Office is at your disposal, should you wish to make any press announcements or hold a press conference during the Annual Meeting.

In addition for the reporting media, a number of leading commentators and editorialists have an official role in the programme and are full participants in the meeting. Our Media Fellows fully respect the confidentiality of discussions; they will not attribute direct quotes or identify participants without permission. Again, should you be disturbed by any breach of privacy, please let us know immediately.

respect

The Annual Meeting has become known as a very hard-working gathering, whose participants are committed to intensive interaction. We count on your cooperation in choosing carefully the sessions you attend so that, once in the session, you stay until the end. Punctuality must be observed in arriving for the session on time; once sessions have begun, further access will be closed.

Dress

Davos is a large mountain village, situated at 1600m or so above sea level, whose exceptional climate long made it famous for health cures. Nowadays it is also renowned for winter sports. It is an elegant resort where smart informal sportswear is the norm. Outdoors, warm clothing and boots are a must!

Inside the Congress Centre, for men a blazer or sports jacket or even a sweater are more practical than a three-piece suit. Personal contacts are easier in a relaxed setting and the wearing of less formal clothing can contribute to this. Protocol is kept to a minimum but some participants still prefer, even in this informal atmosphere, to wear a suit and tie. What matters most is that participants feel at ease.

For most evening events (dinners within the official programme), it is perfectly acceptable to wear day clothes, since participants mostly go on to dinner direct from the Congress Centre. The Saturday evening soirée is the exception: dinner jackets or a dark suit for men, short or long cocktail dresses for women, or national costume, are recommended.

Concept of the 1997 Annual Meeting

Purpose

The Annual Meeting is the world's foremost gathering of leaders from business, government, science, academia, culture and the media, with a considerable impact on world affairs.

The Annual Meeting helps leaders to develop long-term perspectives in a world of accelerating political, economic, social, technological and cultural change. It is global in terms of its scope and contents.

The Annual Meeting allows participants, at the beginning of the year, to determine their own priorities and to clarify the action agenda.

Participation

Participation in the 1997 Annual Meeting is reserved for chief executives of member companies, and is strictly limited in number so as to maintain a club-like atmosphere and foster true interaction.

Spouses are considered full partners and have access to the majority of sessions, as well as to a programme of additional activities.

Programme

The programme is designed to permit participants to take the "global pulse" of key issues shaping the corporate environment, as well as to explore the latest approaches to management leadership and to share ideas with the world's eminent thinkers.

Interactive and small-scale activities dominate the programme, to allow participants individualized contact and conversation with colleagues and leaders from politics and academia.

To this end, the World Economic Forum has reinforced its partnership with leading universities and institutes.

Participants will be kept up to date on the programme as it develops, as well as on other participants. Final documentation, including the detailed chronological programme, information on other participants and on the meeting's many services and activities, is distributed in Davos.

(Please turn over >)

1997 Annual Meeting
Davos 30 January-4 February

1997

U08633 / 96

Logistical arrangements

All services for participants' hotel arrangements are provided by our operations partner Global Event Management (GEM).

GEM can also assist with travel arrangements to Zurich (the closest international airport to Davos) and transfer from Zurich to Davos.

Languages

The working language in general is English. Some of the sessions have simultaneous interpretation (particularly sessions in plenary).

Security

Stringent security measures are in force during the meeting. With the calibre of business and political leaders present, both the Swiss authorities and the foundation make sure that the most thorough arrangements possible are provided.

1997 Annual Meeting Programme Structure

	Thursday 30 Jan.	Friday 31 Jan.	Saturday 1 Feb.	Sunday 2 Feb.	Monday 3 Feb.	Tuesday 4 Feb.	
08.30	Registration begins	Sessions	Sessions	Sports Day	Sessions	Sessions	08.30
09.00							09.30
10.00							10.00
11.00							11.00
12.00		Sessions	Sessions		Sessions	Sessions	12.00
13.00	Welcome lunch in the Congress Centre Special workshops	Lunches in the mountains and sessions over lunch	Sessions over lunch		Sessions over lunch	Schizalp lunch Sessions over lunch	13.00
14.00							14.00
15.00		Sessions	Sessions		Sessions	Sessions	15.00
16.00				Sessions			16.00
17.00	Reception	WEP (World Economic Partnership with political leaders)	Sessions		Sessions	Closing Session	17.00
18.00	Opening Session						18.00
19.00		Buffer reception in the Congress Centre	Dinners with political leaders		Sessions over dinner	Buffer reception in the Congress Centre	19.00
20.00	Connect dinners in the hotels		Sinks	Sessions over dinner		Charity Concert	20.00
21.00							21.00



COMMITTED TO
IMPROVING THE STATE
OF THE WORLD

Reflected in the Media

1996 Annual Meeting
Davos 1-6 February

U08633 196

1996



COMMITTED TO
IMPROVING THE STATE
OF THE WORLD

Report

Sustaining Globalization

Honorary Co-Chairs

Bill Bradley
Gro Harlem Brundtland
Livio DeSimone
Hans Tietmeyer
Shoichiro Toyoda

Rapporteur

Raymond Barre

1996 Annual Meeting
Davos 1-6 February

1996

U08633 /96

4
BILDERBERG MEETINGS

Amstel 214

1817 A.J. Amsterdam
The Netherlands

Phone +31 20 625 0252

Fax +31 20 624 9299

074 MAY 23 PM 3:15

Date : 15 May 1996
To : Participants in the Bilderberg Meeting
Toronto, May 30-June 2, 1996
From : Maja Banck, Executive Secretary

1. Enclosed please find

- o the current list of participants
- o background papers by Anders Aslund, Chas. W. Freeman, Timothy Garton Ash, and Sylvia Ostry

2. May I urge participants who have not yet sent their travel advisory form and/or passport photo and/or their short biography to do so immediately by fax/mail.

3. As from Monday, May 27 until the end of the Meeting all fax messages and telephone calls should be addressed to the Secretariat of the Meeting at the

CIBC Centre
King City, Ontario
Canada
Phone: +1 905 833 7323
Fax: +1 905 833 4795

Enclosures

007519 196

00112
15 May '96

**CONFIDENTIAL
NOT FOR CIRCULATION**

BILDERBERG MEETINGS

CIBC Centre, King City, near Toronto, Canada
May 30-June 2, 1996

CURRENT LIST OF PARTICIPANTS

STATUS 14 May 1996

Chairman

GB Cammion, Peter
Former Chairman of the Board, Christie's International plc; Former Secretary General, NATO

Honorary Secretary General for Europe and Canada

NL Halberstadt, Victor
Professor of Public Economics, Leiden University

Honorary Secretary General for U.S.A.

USA Yost, Casimir A.
Director, Institute for the Study of Diplomacy, School of Foreign Service, Georgetown University, Washington

I	Agnelli, Giovanni	Honorary Chairman, Fiat S.p.A.
I	Agnelli, Umberto	Chairman IFIL
FIN	Ahtisaari, Martti	President of the Republic of Finland
USA	Allaire, Paul A.	Chairman, Xerox Corporation
USA	Andreas, Dwayne	Chairman, Archer-Daniels-Midland Company
S	Åslund, Anders	Senior Associate, Carnegie Endowment for International Peace
CDN	Axworthy, Lloyd	Minister for Foreign Affairs
P	Balestrão, Francisco Pinto	Professor of Communication Science, New University, Lisbon; Chairman, IMPRESA S.G.P.S.; Former Prime Minister
S	Barnevik, Percy	President and Chief Executive Officer, ABB Asea Brown Boveri Ltd.
USA	Bentson, Lloyd M.	Former Secretary of the Treasury; Partner, Verner Lupton Bernhard McPherson and Hand, Chartered
I	Bernabé, Franco	Managing Director and CEO, Ente Nazionale Idrocarburi
D	Bertram, Christoph	Diplomatic Correspondent, Die Zeit; Former Director International Institute for Strategic Studies
NL	Beugel, Ernst H. van der	Emeritus Professor of International Relations, Leiden University; Former Honorary Secretary General of Bilderberg Meetings for Europe and Canada
TR	Bevazi, Selahattin	Director of Companies
DNT	Bikdt, Carl	EC Mediator, International Conference on Former Yugoslavia
CDN	Black, Conrad M.	Chairman, The Telegraph plc
NL	Bolkstein, Frits	Parliamentary Leader VVD
USA	Bryan, John H.	Chairman and CEO, Sara Lee Corporation
USA	Buckley, Jr., William F.	National Review
GR	Curas, Costa	Director of Companies
D	Canellieri, Ulrich	Member of the Board, Deutsche Bank A.G.
E	Carvajal Urquijo, Jaime	Chairman and General Manager, Iberfomento
CDN	Chénou, Jean	Prime Minister
F	Colomb, Bertrand	Chairman and CEO, Lafarge
USA	Corzine, Jon S.	Senior Partner and Chairman, Goldman Sachs & Co.
CH	Cotti, Flavio	Minister for Foreign Affairs

USA	Dun, Kenneth W.	Max Pam Professor of American and Foreign Law, The University of Chicago Law School
GR	David, George	Chairman, HeJenig Bottling Company S.A.
B	Davignon, Etienne	Executive Chairman, Société Générale de Belgique; Former Vice Chairman of the Commission of the European Communities
CDN	Devin, Marie-Josée	Executive Director, Hudson Institute of Canada
CDN	Eaton, Fredrik S.	Chairman Executive Committee, Eaton's of Canada
DK	Ellemann-Jensen, Uffe	Member of Parliament
TR	Erçel, Gazi	Governor, Central Bank of Turkey
USA	Feldstein, Martin S.	President, National Bureau of Economic Research
INT	Fischer, Stanley	First Deputy Managing Director, International Monetary Fund
USA	Fites, Donald	Chairman and CEO, Caterpillar, Inc.
CDN	Flood, A.L.	Chairman, Canadian Imperial Bank of Commerce
USA	Freeman, Jr., Chas. W.	Former Assistant Secretary of Defense for International Security; Chairman of the Board, Project International Associates, Inc.
GB	Garton Ash, Timothy	Fellow of St. Antony's College, Oxford
USA	Gerstner, Jr., Louis V.	Chairman, IBM Corporation
USA	Gigot, Paul	Columnist, The Wall Street Journal
TR	Gökensay, Emre	Minister for Foreign Affairs
CDN	Gottlieb, Allan E.	Former Ambassador to the United States of America
CDN	Griffin, Anthony G.S.	Honorary Chairman and Director, Guardian Group
CDN	Harris, Michael	Premier of Ontario
D	Hausmann, Helmut	Member of Parliament
N	Høegh, Wivay	Chairman of the Board, Leif Høegh & Co. ASA; Former President, Norwegian Shipowners' Association
USA	Holbrook, Richard	Former Assistant Secretary for European Affairs
B	Huyghebaert, Jan	Chairman, Almazij-Kredietbank Group
FIN	Huomela, Jaakko	Managing Director, Centre for Finnish Business and Policy Studies; Former Ambassador to the United States of America
N	Jagland, Torbjørn	Chairman, Labour Party
GB	Job, Peter	Chief Executive, Reuters Holding PLC
USA	Jordan, Jr., Vernon E.	Senior Partner, Akin, Gump, Strauss, Hauer & Feld, LLP (Attorneys-at-Law)
F	Jospin, Lionel	First Secretary of the Socialist Party; Former Ministre d'Etat
A	Kamer, Dietrich	Chairman of the Managing Board, Erste Allgemeine-Generali Aktiengesellschaft
USA	Kissinger, Henry A.	Former Secretary of State; Chairman, Kissinger Associates, Inc.
GB	Knight, Andrew	Non Executive Director, News Corporation
DNT	Kohstamm, Max	Senior Fellow, European Policy Centre, Brussels; Former Secretary General, Action Committee for Europe; Former President, European University Institute
NL	Korteweg, Pieter	President and CEO, Robeco Group; Honorary Treasurer Bilderberg Meetings
A	Kothbauer, Max	Deputy Chairman, Creditanstalt-Bankverein
USA	Kravis, Henry R.	Founding Partner, Kohberg Kravis Roberts & Co.
DK	Lavens, Holger	Chairman of the Board of Directors, The Danish Oil & Gas Consortium
F	Lellouche, Pierre	Member of the National Assembly
F	Lévy-Lang, André	Chairman of the Board of Management, Banque Paribas
USA	Lord, Winston	Assistant Secretary for East Asian and Pacific Affairs
P	Maranic, Margarida	TV Journalist
CDN	Martin, Paul	Minister of Finance
B	Maystadt, Philippe	Vice-Prime Minister, Minister of Finance and Foreign Trade
USA	McHenry, Donald F.	Research Professor of Diplomacy and International Affairs, Georgetown University

F	Messier, Jean-Marie	CEO and Chairman of the Executive Committee, Compagnie Generale des Eaux
GB	Monks, John	General Secretary, Trades Union Congress (TUC)
F	Montbrail, Thierry de	Director, French Institute of International Relations; Professor of Economics, Ecole Polytechnique
INT	Monti, Mario	Commissioner, European Communities
NL	Netherlands, Her Majesty the Queen of the	
JCE	Oddsson, David	Prime Minister
PL	Olechowska, Andrzej	Chairman of the Supervisory Board, Bank Handlowy W Warszawie S.A.; Former Minister for Foreign Affairs
CDN	Ostry, Sylvia	Chairman, Centre for International Studies, University of Toronto
GR	Pangalos, Theodore G.	Minister for Foreign Affairs
USA	Perry, William J.	Secretary of Defense
N	Petersen, Jan	Parliamentary Leader, Conservative Party
CH	Pury, David de	Director of Companies; Former Co-Chairman of the ABB Group and former Ambassador for Trade Agreements
GB	Riordan, Malcolm L.	Foreign Secretary
GB	Robertson, Simon	Chairman, Kleinwort Benson Group plc
USA	Rockefeller, David	Chairman, Chase Manhattan Bank International Advisory Committee
CDN	Rogers, Edward S.	President and CEO, Rogers Communications Inc.
GB	Roll, Eric	Senior Adviser, SBC Warburg
INT	Ruggiero, Renato	Director General, World Trade Organization; Former Minister of Trade
S	Sahlin, Mona	Member of Parliament
D	Schrempf, Jürgen E.	Chairman of the Board of Management, Daimler-Benz AG
INT	Schwab, Klaus	President, World Economic Forum
DK	Seidenfaden, Tøger	Editor in Chief, Politiken A/S
USA	Sheikman, Jack	Chairman of the Board, Amalgamated Bank
CH	Sommaruga, Cornelio	President, International Committee of the Red Cross
USA	Soros, George	President, Soros Fund Management
E	Spain, H.M. the Queen of	
USA	Stephanopoulos, George	Senior Adviser to the President
D	Strube, Jürgen	CEO, BASF Aktiengesellschaft
H	Szűcs, György	President, National Bank of Hungary
IRL	Sutherland, Peter D.	Chairman and Managing Director, Goldman Sachs International; Former Director General, GATT and WTO
NL	Tabaksblat, Morris	Chairman of the Board, Unilever N.V.
GB	Taylor, J. Martin	Chief Executive, Barclays Bank plc
LUX	Thom, Gaston E.	President Directeur Général, CLT
D	Töpfer, Klaus	Federal Minister for Regional Planning, Building and Urban Development
USA	Trotman, Alexander J.	Chairman, Ford Motor Company
I	Vellari, Valter	Editor, L'Unità
P	Vitorino, António	Deputy Prime Minister and Minister of Defense
D	Voscherau, Henning	Mayor of Hamburg
A	Vranitzky, Franz	Federal Chancellor
S	Wallenberg, Marcus	Executive Vice President, Investor AB
USA	Weiss, Stanley A.	Chairman, Business Executives for National Security, Inc.
USA	Whitehead, John C.	Former Deputy Secretary of State
CDN	Wilson, L.R.	Chairman, President and CEO, BCE Inc.
INT	Wolfensohn, James D.	President, The World Bank; Former President and CEO, James D. Wolfensohn, Inc.
D	Wolff von Ammongen, Otto	Chairman and CEO of Otto Wolff GmbH
USA	Wolffowitz, Paul	Dean, Nitze School of Advanced International Studies; Former Under Secretary of Defense for Policy

Observers

NL Orange, H.R.H. the Prince of
B Philippe, H.R.H. Prince

Rapporteurs

GB Mickelthwait, John
USA Victor, Alice

Business Editor, The Economist
Executive Assistant, Rockefeller Financial Services, Inc.

In Attendance

NL Moja Banck
CDN Mary Alice Carroll
USA Charles W. Muller

Executive Secretary, Bilderberg Meetings
Local Organizer 1996
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GB Great Britain
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H Hungary

I Italy
ICE Iceland
INT International
IRL Ireland
L Luxembourg
N Norway
NL Netherlands
P Portugal
PL Poland
S Sweden
TR Turkey
USA United States of America

Anders Åslund
Carnegie Endowment for International Peace
2400 N Street, NW
Washington, DC 20037

Moscow
April 30, 1996

Russia: Political Forces and Economic Prospects in the Face of Presidential Elections

On June 16, Russia is to hold its second democratic presidential elections, after having held two democratic parliamentary elections. Even so, this date signifies a milestone in the Russian post-communist development. Either it means the consolidation of democracy and market economy in Russia or a nasty turn to a dismal society. These presidential elections are likely to determine Russia's future for years to come and are the natural focus of this note.

Contrary Perceptions of the Situation

Today, Russia is characterized by a deep polarization between supporters of democracy and market economy, on the one hand, and an alliance of communists and "national-patriots", on the other. This polarization is based on contrary perceptions of the current situation.

From a reformist point of view, a great deal has been accomplished. Russia is a democracy which has held two democratic parliamentary elections in a row. Media are free and highly pluralistic. Legislation and the legal system are developing swiftly, and the crime rate peaked three years ago. More than two thirds of the labor force works in the private sector. The Russian economy is a market economy, though somewhat messy. The inflation rate has at long last

fallen below 40 percent a year, and the IMF agreement helps it to stay there. You get more rubles for a dollar today than a year ago. A great deal of economic restructuring has taken place. Russia is ready for growth of possibly a couple of percent this year to rise to 6 percent in 1998 according to IMF forecasts. Last years exports rose by no less than one quarter.

However, a communist looking upon the Russian situation sees something completely different. The Soviet Union has fallen apart, inter-republican economic links have collapsed, a war persists in Chechnya, and nobody respects Russian any longer. The official GDP has fallen officially by 50 percent (perhaps by one quarter in reality), the military industry has declined even more and Russia's science is in tatters; the standard of living has fallen catastrophically (probably by some 20 percent in real terms), and Russia has become one of the most unequal countries in the world (not quite true - it is still less unequal than the US, and the income distribution became more equal in 1995). Law and order have broken down and organized crime prevails. In short, an imperial nostalgia prevails, many old communists have lost out, the social costs have been high, and the communists do not approve of anything that has been accomplished.

Regional disparities are great, which makes it particularly difficult to get a proper over-all view. The reformers are strong where there has been a great deal of reform, most of all in Moscow and St. Petersburg, while the communists prevail where little reform is to be noticed - in the Russian southern agricultural belt and the stagnant north.

The Presidential Candidates

Russian opinion polls have proven highly unreliable. There are great regional disparities, communications are poor, voting patterns and participation vary

greatly, so it has proven difficult to establish representative samples. Therefore, we must be more sceptical than elsewhere of all opinion polls. Even so, the polls have helped clarifying who the front-runners are: communist leader Gennady Zyuganov with up to 27% of the vote, and President Yeltsin who has risen from a low of 3% in January to up to 27% in recent polls. They are followed by four candidates with usually 8-10% each: General Alexander Lebed, Grigory Yavlinsky, Svyatoslav Fedorov, and Vladimir Zhirinovskiy.

The present expectation is that there will be a run-off on July 7 or 14 - depending on how fast the votes will be counted - between President Yeltsin and communist leader Zyuganov.

Lebed, Yavlinsky and Fedorov have formed a vague alliance called the "third force", occupying the center. Together they have about 27% in the polls, so they have a considerable vote potential. They all appear both anti-communist and anti-Yeltsin. Yavlinsky could possibly be considered social democrats, while Fedorov is further to the left, and Lebed a milder nationalist. It would make sense if these three centrists united and won.

However, these are three big personalities, their programs are not very similar, and their electorates are pretty incompatible. Most importantly, they have proven no organizational skills, which appear vital in a Russian election campaign. Only Yavlinsky leads a party that entered the Duma, while Lebed and Fedorov are one-man shows without organization or programs. They have little money and minimal media support. For good or bad, they have the common innocence of not having been in power. So far, neither of them is perceived as a credible candidate. This large uncertain center appears the big prize to win in the election rather than an independent option. In the end, their anti-communism is likely to be more important than their anti-Yeltsinism, but their eventual inclination appears open to negotiation.

Zhirinovsky will certainly stand on his own, and after having been underestimated in the last three elections, caution is in place. He has a strong organization and a committed electorate. Zhirinovsky's voters are both against communism and the reforms, but his electorate appears more anti-communist than apt-Yeltsin, and Zhirinovsky frequently makes deals with the government and supports it in crucial moments. If Zhirinovsky does not go to the second round, he is likely to support Yeltsin.

The whole campaign focuses on the two lead candidates Yeltsin and Zyuganov, and we shall leave the others aside. Since the polls have such a poor record, it appears more relevant to analyze the election strategies of these leading candidates.

Yeltsin's Electoral Strategy

During the first two months of 1996, Zyuganov looked very impressive, but Yeltsin has gradually picked up. It is frequently argued that it does not really matter who wins because Yeltsin has embraced so much of the communist program. To some extent that was true in January 1996, but important and positive changes have occurred in the Yeltsin camp, particularly in March.

First, Yeltsin is evidently in better physical shape than he has been for very long. Rumours that he has stopped drinking are substantiated by his daily public appearances. Yet, his collaborators are afraid that his health will collapse and he is clearly over-strained.

Second, Yeltsin has broadened his circle. In January, Yeltsin appeared to have given up the balancing of different groups around him and given in to the group led by his chief body guard Alexander Korzhakov, assisted by the FSB (formerly KGB) Chairman Mikhail Barsukov, and First Deputy Prime Minister Oleg Soskovets, but this group has suffered serious set-backs. In January,

Barsukov led a strikingly incompetent attack on Chechens, who held hostages in Pervomayskoe in Dagestan. Soskovets was the official chairman of Yeltsin's election campaign but failed completely. In January and February he was more or less Yeltsin's prime ministerial candidate, but that is no longer the case. When Yeltsin is well and sober, his reliance on this "sauna" gang diminishes.

Instead, other people in the Yeltsin circle have gained more influence. Yeltsin's first personal assistant Viktor Ilyushin is now a major counterweight to Korzhakov. Moscow Mayor Yuri Luzhkov has used his considerable powers. Prime Minister Chernomyrdin is not out yet and fights back. Yeltsin's daughter Tatyana has started playing an important liberalizing role. Hence, while nobody has been sacked, the power distribution within the Yeltsin camp has improved, but a vicious power struggle continues within the Yeltsin camp.

Third, the Yeltsin campaign has assumed democratic features. Originally, the official Yeltsin campaign was merged with the state apparatus, but it failed to collect the necessary one million signatures for Yeltsin's presidential candidacy. Instead, a group of unknown democrats did so on their own initiative, and Yeltsin realized that he had to abandon his reliance on the FSB for information and the state apparatus for campaigning and turned to various democratic groups prepared to work for him. Notably, liberal Anatoly Chubais plays a discrete but important role in the campaign.

Fourth, Yeltsin is pursuing a popular election campaign. He is going out in his old style and talks to people, listens to their concerns and responds. He displays his humble qualities and confesses that he is not satisfied with his achievements as President. He appears to listen to people and care about people again, which few Russian politicians do.

Fifth, Yeltsin's program has changed in a democratic and popular direction. Although he has no formal program yet (it is supposed to be

announced on May 15), his many election speeches make clear his economic priorities and they are sound.

The main task is to beat inflation, and inflation has been below 3 percent a month during the last two months. When inflation is beaten, growth is bound to re-emerge. Task number two is to make sure that pensions and wages are being paid on time. This is less a budgetary issue than a matter of fighting fraud. Typically, officials and managers use such money to their own benefit before they pay the legal claimants. A third task is land reform. Yeltsin has issued a good decree, and the communists and agrarians oppose it because it threatens the vested interests of their local elites. A fourth issue is to fight crime and corruption, but that is done more in declarations than in reality, but at least it is done, and a few former senior officials are being prosecuted.

Yeltsin's big political handicap is the war in Chechnya. While he hardly can solve anything before the elections, he is at least doing a lot about it. The killing of General Dudaev was certainly to Yeltsin's benefit, as he showed that he could do something.

To a considerable extent, Yeltsin has disarmed the nostalgia for empire by dealing energetically with the practical issues of realistic economic integration with the most positively inclined neighboring countries - Belarus, Kazakhstan and Kyrgyzstan. In the case of Belarus, the cooperation might go further but that appears not all too likely.

President Yeltsin's great problem remains that he is very unpopular with a large share of the population. His negative rating is still close to 60 percent. The communist dislike is inevitable, but many people in the center dislike him for the war in Chechnya, the proliferation of crime even in high government circles, and flaws in reforms. There might be a ceiling for Yeltsin's vote that cannot yet be established, and this is a major worry in the Yeltsin camp.

The Communist Electoral Strategy

Unlike the Yeltsin campaign, the communist campaign has started with organization. Gennady Zyuganov proudly proclaims that he has been endorsed by 200 organizations representing 22 million people. Virtually all communist and "national-patriot" groups have signed up. Zyuganov's main plank is nationalistic and he explains his chief mission to be to unite the red and the white. He has all extreme communists and nationalists in his camp.

However, as a consequence of this organizational approach, Zyuganov's electoral strategy has become to consolidate of communists and national patriots rather than reaching out to the center. The decisive event was than the Duma in early March voted to abrogate the Belovezhsky agreement of December 1991 on the dissolution of the Soviet Union. This was an absolute condition for the support of Viktor Anpilov and his extreme communist party Working Russia (4.6% of the vote in December 1995) and Alexander Rutskoi and his nationalist party Great Power (2.6% of the vote in December 1995). In effect, that appears to have been the turning point in Zyuganov's campaign, and the party is now stuck in imperial nostalgia and moralization. Moreover, Anpilov's storm troops are sharply anti-democratic and truly frightening even to ordinary communists. Zyuganov has become a prisoner of the communist and nationalistic extremists.

Economic policy was supposed to be a major plank in the communist platform, as falling production, poverty and rising income differentials are obvious problems. The leading economic politician is Yuri Maslyukov, former Chairman of the State Planning Committee under Gorbachev. Maslyukov used his chairmanship of the Duma Committee on Economic Policy to call for hearings in mid-April designed to help the communists to elaborate their economic policy. The slogan was that all the best economists and ideas should be mobilized.

Curiously, this was the same approach that Mikhail Gorbachev used. The communists clearly wants to avoid the hard choices between socialism and capitalism.

However, those who responded to the calls for economic programs were communists who wanted to re-establish the Soviet economic system, either in a soft Ryzhkov-Gorbachev form (that broke down) or in a hard Stalinist form. Standard demands that emerged were: the re-establishment of Gosplan and central planning with state orders, far-reaching controls over prices, foreign trade and currency operations, massive re-nationalizations and confiscations of privatized property. The published communist platform, which is pretty vague, does not even mention private property and certainly does not endorse it.

The comparatively moderate communist leaders were left in an awkward position with a choice of either a Soviet economic system, that most people know broke down, or no economic policy. For the time being, it appears as if Zyuganov has chosen the latter option, which means that he leaves the economic stage completely to Yeltsin and fails to exploit one of the top issues. Yet, also the communist intent to present their election program on May 15, giving them some time to change, but the underlying forces will hardly allow Zyuganov to opt for a winnable position.

As time proceeds, it becomes ever more clear how extreme the communists really are. There are many reasons. Zyuganov's strategy of gathering all extremists within his camp is one explanation. Another reason is that the communists won too many seats for their own good in the Duma last December, and the candidates lower down on the lists tended to be more extreme than the leaders. Hence, extreme communists appear to constitute a majority of the communist deputies. A third reason is that the communists have become

convinced that they will win, and they have shown the arrogance of power before getting it. Finally, their urge for revenge is strong and frightening.

By any ordinary standard, the Russian Communist Party is simply not electable. Zyuganov's strategic ambition is to win extreme nationalists rather than the center, and it no longer appears plausible - though not altogether excluded - that Zyuganov can move to the center. Still, Yeltsin is the all dominant alternative, and many would not consider him electable.

Reasons for a Yeltsin Victory

Much will change during the remaining one and a half months before the elections. The behavior of the four second-level candidates will be very important, and they are all likely to be open to deals that are difficult to predict. Yet, for many reasons, President Yeltsin appears most likely to win the elections.

First of all, Yeltsin remains the most skilful popular politician in Russia and he is an unstoppable locomotive when he gets going and he appears in splendid shape right now. He has a wonderful popular touch. Note that Yeltsin did not run himself in the unsuccessful elections in December 1993 and 1995.

Second, at long last the reforms are producing visible positive results. Today, Yeltsin can say that he has carried out financial stabilization and made the ruble a stable currency. While economic growth initially is likely to be sluggish, it should make itself felt throughout a large part of the country this year. There is a widespread popular sense that the crisis is behind us.

Third, the communists have frightened much of Russian society with their abrasive old communism. Participation is likely to be high, and the polls already indicate 68 percent participation, and such indicators usually rise over time. Especially, the Russian business community is dead frightened by the communists and has woken up to an extraordinary political activity, and the

businessmen have both money and authority. The open letter from 13 top businessmen issued on April 26 swiftly changed the political debate.

Fourth, Yeltsin has adjusted his program and his policies to satisfy legitimate popular demands and he is reaching out outside of his government base, while the communists try to consolidate their base.

Fifth, all the four intermediary candidates now appear more likely to support Yeltsin than Zyuganov in a second round, but Zyuganov could play a trick and make a broader alliance to get out of the extremist corner where he is currently caught.

Sixth, almost all other countries favor Yeltsin. It is most notable in the other former Soviet republics, where the fear of Russian communists is striking. The domestic communists are seen as a fifth column, collaborating with the Russian communists against national independence. The western preference for Yeltsin is obvious and self-evident. However, also the Chinese communists much prefer Yeltsin, as they showed during his recent visit to China.

Seventh, Russia looks very different in the summer and in the winter. Therefore, people are likely to be much happier and satisfied in June than in December and that should have an effect on the vote. (Sweden and Norway do not hold parliamentary elections in the winter.)

Finally, the communist alternative appears a bit too old-fashioned and absurd at present to be really credible. It appears more like the last cheer of the middle-level communist apparatchiki who have lost out than a plausible vision of Russia's future.

Yeltsin has almost total media support, which might be a mixed blessing, because Russians are suspicious and they might vote for the communists because they are continuously attacked on TV and much of the government propaganda is pretty crude. In July 1994, the establishment communist candidate Kebich lost

unexpectedly to populist Alexander Lukashenko in Belarus, and Lukashenko got no less than 80% of the votes, although Belarusian media overwhelmingly praised Kebich.

A worrisome feature is the widespread assumption that the President "will not allow himself to lose". One statement runs: "Either the President wins the elections or he just wins." The assumption is that the President can and will rig the elections. It is dubious that he can do so, because much of the regional and local administration is pro-communist, and the communists are strongest in faraway places, where rigging is comparatively easy. Apparent fraud will seriously undermine the legitimacy of the regime, and the belief that Yeltsin will win in any case undermines the willingness of his potential supporters to vote.

Although Yeltsin's negative vote is falling now, the question remains whether he is simply unpopular to be able to win. A curiosity in the Russian election system is that in the second round is that people can vote against both the candidates in the run-off, while a winning candidate must get more than 50 percent of the votes cast. Thus, Russia might be left without an elected President after two rounds of elections.

Speculation continues on some kind of compromise deal between the communists and Yeltsin, possible after the first round of the elections, as the stakes are so high, and the losing side would lose all. There are many options and speculations, and all sides keep talking to all sides.

After the Elections

If Yeltsin wins the elections fairly, Russia has essentially succeeded in its arduous transition to a democracy and a market economy based on the rule of law. Most of the essential economic reforms have already been undertaken. The medium-term IMF agreement constitutes a good base for future structural reforms. A

large number of foreign investors are no longer looking at the Russian market and a rise of the stock prices by 40 percent in April indicates the potential of the Russian market. A major remaining problem is the law and order situation. The bank crisis is bound to get aggravated with lower inflation, but these are normal problems that Russia now can deal with. However, it is completely unclear what government Yeltsin would choose after the elections, and considering his mental state, the general expectation is that Yeltsin will fade in a depression for months, if he wins the elections. Questions about his health remain. Yet, however unclear the Yeltsin alternative is, it does mean that Russia has made the transition. Russia will be more assertive in its international relations, but it will not be an enemy of the West.

In accordance with the argument above, Zyuganov is not likely to win if the communists do not change their policy through an alliance with centrists, which remains an option. If Zyuganov would win with his current policies, it would be a serious set-back not only for Russia and its neighbors, but for the whole world. There are some levers restricting the sway of the communists. Some are economic. The three-year agreement with the IMF will undoubtedly be broken, if Zyuganov implements communist economic policy. It is reinforced with bilateral credits conditioned on the IMF agreement. The Russian debt burden of some \$130 billion needs rescheduling and servicing, but such a huge debt is more of a threat to the outside world than to the Russian government. The Russian business community can do a great deal - either buy suitable communists, pressure the government, or emigrate with their capital. After all Russia has a democratic system with a constitution, an elected parliament, many elected regional and local officials, and free pluralistic media. A communist victory would be a serious test of the strength of these institutions.

An intermediary solution would be some kind of compromise between Yeltsin and the communists, but it is difficult to discuss such an option since it can take many forms. It could be democratic or anti-democratic.

The outcome of these vital elections is by no means a given, and it will be of extraordinary importance.

WHERE IS CHINA GOING?

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The Chinese believe that, for most of recorded history, China was not just the most populous but also the most prosperous, technologically most advanced, most powerful, and – arguably – the best governed of all human societies. Chinese regard their eclipse by the West in what they call 'the recent past' (the last few centuries) as an anomaly that time and hard work will correct. Most Chinese now believe that, in the century to come, their nation is destined to resume its natural place as the preeminent society on the planet. They may be right. Even if they are wrong, their cocky self-confidence that time is on their side has major international implications.

China's rise to wealth and power is the leading factor in the Asia-Pacific region's progressive displacement of the Atlantic community at the center of world economic affairs. The challenge of fitting China into the existing world order does not, however, stop with economics. China's rise also has enormous political and military implications. Its effects will be felt not just in Asia but throughout the world.

The Economic Challenge of China

Between 1980 and 1995, the Chinese economy more than quadrupled in size. From 1991-1995, its average annual real growth rate was 11.8 percent. Measured in terms of purchasing power parity, China now accounts for about 8 percent of global GNP. Most economists expect that the Chinese economy will continue to grow at 8 - 10 percent for the next fifteen years. It will again quadruple in size, before growth rates begin to decline. Before 2020, they believe, China is likely to overtake the United States as the world's largest economy (thus resuming the rank it had until 1850). By 2030, China's economy may be larger than those of the United States and Japan combined.

The People's Republic of China (PRC) is achieving this growth, in part, by integrating its now largely marketized economy with the more advanced Chinese economies in Hong Kong, Macao, and Taiwan. It is also opening itself to the non-Chinese world. In the past five years, China absorbed \$114.4 billion in direct foreign investment and another \$46.9 billion in foreign loans. (About 70 percent of "foreign" investment came from Chinese entrepreneurs in Hong Kong, Macao, and Taiwan.) Over this period, China's trade rose 19.5 percent annually, its imports and exports totaled \$1,015 billion, and the country was visited by more than 200 million foreign tourists. The PRC's foreign exchange reserves rose from \$11.1 billion in 1990 to \$73.6 billion in 1995 (and will reach \$90 billion by the end of 1996). Foreign exchange reserves of the "greater Chinese" economy (comprising the mainland, Hong Kong, Macao, and Taiwan) now stand at about \$225 billion.

The PRC's integration into this "greater Chinese" economy and the East Asian economic region is being accomplished informally, by traders and investors rather than by governments or regional institutions. Now that colonialism, World War II, civil war, communism, and Cold War containment have receded into history, clan and family ties between Chinese overseas and on the mainland are being rapidly reknit. The Taiwan Strait has presented the most dramatic example of these trends. Despite the political estrangement between the

authorities in Taipei and Beijing. Taiwan entrepreneurs have invested more than \$25 billion on the Chinese mainland. Cross-strait trade now approaches \$28 billion annually. 1.5 million people travel to the mainland from Taiwan each year.

The PRC's rates of growth resemble those of other, smaller East Asian societies in recent decades. As in Singapore, Hong Kong, Taiwan, and South Korea, such growth over three or four decades will eventually lift Chinese living standards to levels equivalent to those in middle-income European countries. There are, however, important differences between China and the newly industrialized countries (NICs) of Asia. About 90 percent of China's future capital needs can be met from domestic savings. China's economy has, like that of other East Asian economies, benefited enormously from access to North American and European markets. Thirty percent of China's exports now go to the United States alone. However, China has a huge internal market, making it less dependent on exports than Taiwan or Korea at comparable stages of development. Moreover, intra-Asian trade, including China's trade with Asia, is now growing much faster than trade with other regions. In the years to come, China's dependence on both external and non-Asian markets like the United States will gradually decline.

The Chinese economy is nevertheless the engine that is accelerating the global shift of wealth and power to East Asia. Events in the region or between China and its trading partners may alter the rate of growth but are unlikely to reverse it. As early as the year 2000, the World Bank estimates, East Asia will contribute over 50 percent of the growth in the world economy. If the present is any guide to the future, however, East Asia may do so without having become fully part of the institutions that undergird the current international economic order. This order was crafted over the past half-century of Euro-American global dominance. It is now increasingly unsettled by the rise of China and other East Asian economies.

China's growing economic weight and central position in what is rapidly emerging as the leading economic region of the world economy have yet to be reflected in its inclusion in global institutions and regulatory regimes. China is excluded from the G-7, the World Trade Organization, the New Forum (successor to COCOM), the Missile Technology Control Regime (MTCR), the Nuclear Suppliers Group, and most other institutions devoted to setting global policies on trade, investment, and technology transfer. No one has even thought about how to work toward the ultimate admission of China to the Organization for Economic Cooperation and Development (OECD).

The effort (inaugurated by the United States and others in the early 1970s) to incorporate China into the world order shaped by the Atlantic community over the past half century has faltered. Yet it is hard to imagine that the institutions that constitute this order can retain their leading position if an economy that is soon to become the world's largest is not fully integrated with them. Meanwhile, a rapidly expanding list of global and regional economic and politico-economic issues cannot be successfully managed without Chinese cooperation.

paradox remains. And it points to another unique characteristic of this technological paradigm. The IT revolution is essentially about knowledge and key knowledge producers are the education and training institutions of government. No previous technological revolution -- for example, the invention of steam power or electricity -- has impacted so directly on the public sector. Thus innovation in government -- especially in the knowledge institutions -- will be essential to renewed growth and living standards.

In sum, it's easy enough for governments to agree on broad "basics" -- raising trend growth will require improved productivity which will require investments in human capital and knowledge. And effective policies to mitigate the transitional impact of changing technology should be part of a growth strategy. But, as I've argued, the uncertainties about many fundamental aspects of this technological paradigm allow plenty of room for dissent once generalities are translated into specifics.

Labour Market Maladies

In the 1980's and 1990's the demand for less-skilled and less-educated workers fell in all OECD countries. In Europe this resulted in increased, long-term unemployment while in the U.S. it showed up in sharply declining real wages and a huge rise in earnings inequality. Over the same period, employment of high-skilled, better-educated workers rose in all OECD countries.

Were these changes due to technology? If so, why such a striking Transatlantic divide? Since the 1980's also witnessed a major increase in manufacturing imports from industrializing countries (especially in East Asia) what role has trade played?

As a sign of increasing concern, OECD governments recently requested the institution to undertake a comprehensive review and the study -- Technology, Productivity and Job Creation -- should be published later this year. Obviously no definitive answer to the question of technology impact can be expected. But certain "stylized facts" are rather clear. The new technologies require higher levels of cognitive and interactive skills. And, although there are industry variations, the new technologies both reduce the skill

content and share of low-skill jobs, while increasing the skill content and share of high-skill jobs, especially in service industries, the main source of new jobs in the future. This mismatch between the relative demand for and supply of the unskilled has had different outcomes as already noted. The basic reason for the difference is that in Europe, labour market institutions set a floor for real wages and unemployment results while in the U.S. real wages are remarkably flexible and declining earnings are the outcome.

Even if there is growing evidence of skill-biased technological change, this would not rule out the possibility that increasing imports from rapidly industrializing middle-income countries has had no effect on OECD labour markets. Indeed, some voices are now raising fears of "immiseration".

In a recent article surveying the large number of trade and wages studies, aptly titled "Are Your Wages Set in Beijing?", Richard Freeman concludes that "trade matters, but it is neither all that matters nor the primary cause of observed changes".³ But I doubt the debate is over. New efforts at modelling, in a general equilibrium framework, the effects of both trade and investment — the latter of increasing importance, especially in East Asia — suggest a far more significant impact on lowering unskilled wages and reducing jobs than most of the less complex analyses. I expect there will shortly be another model which produces different results. And so on. Be that as it may, the major shifts in trade and investment flows which began in the 1980's and are now accelerating, while producing overall benefits to all countries, will also create winners and losers in each country. And it will be extremely difficult to differentiate the impact of technology and trade — especially since globalization has been fed (or even led) by the technological revolution. In other words, the labour market effects of profound structural transformation will not soon go away.

So what are the policy options? Protectionism, one hopes, will be resisted. The more logical candidates are domestic policies designed to increase innovation — for example, upgrading the knowledge infrastructure through improved education and effective Science and Technology policies — and labour

³ Journal of Economic Perspectives, Vol. 9, Sept. 1995, p. 30.

Timothy Garton Ash
THE POLITICS OF EU ENLARGEMENT
Background paper for the 1996 Bilderberg Meeting

The following are brief, informal background notes, not in any sense a comprehensive treatment. They deliberately concentrate on the politics rather than the economics of EU enlargement, and on the post-communist states.

My premiss is that the linked issues of EU enlargement, NATO enlargement, and the development of more closely coordinated European foreign and defence policies are the biggest challenges in Europe today - at least as important as monetary union. The EU's response to the end of communism and the cold war in Europe has been sluggardly and inadequate. Maastricht offered the struggling post-communist democracies nothing. The current inter-governmental conference also seems unlikely to make those changes which have to be made if a community of twenty-plus member states is to function properly.

WHY ENLARGEMENT?

* The EU is called 'Europe' and these countries are European. A 'Europe' with Greece but without Poland is like a Britain with Orkney but without Lancashire. That Greece is in and Poland out is a result only of the artificial 'Yalta' division of Europe in the cold war.

* Security. Two world wars started in Central and Eastern Europe. War has already broken out again there, in the former Yugoslavia and the former Soviet Union. Russia looks increasingly threatening. Even the most advanced post-communist democracies could fall prey to nationalism and become unstable if denied the prospect of membership, which they regard as crucial to securing democracy in their own countries.

* Germany. If Germany remains the eastern front-line state of the West that is difficult both for Germany and for the rest. The Berlin republic would face both temptations and pressures to revert to some version of hegemony in a *Zwischenzone* between it and Russia. It's in all our interests to see Germany comfortable with Western neighbours to its east.

* Economics. Short-term costs, obviously, but in the longer term, a larger single market. I would also add, though of course this is controversial, the Schumpeterian stimulus to Western European producers of East European cheap skilled labour competition.

* Last but not least, the whole European project at the end of the 20th century cannot be allowed to stand or fall with the single great gamble of monetary union. There should at least be one other major show on the road. This is it.

WHO, HOW AND WHEN?

Plainly, the three questions are closely related. For example: if one just concentrated on Poland, Hungary and the Czech Republic, and pushed forward a rapid negotiation for full political membership with long economic transition periods (involving only restricted mutual participation in CAP, structural funds, perhaps even in the free movement of labour), one could still imagine these three being in by the obvious symbolic target date of 2000. If, however, following the conclusion of the IGC in 1997 one opens traditional EC-style negotiations with all 10 central and east European countries with which the EU currently has Europe agreements, and insists on the whole (growing) panoply of the *acquis communautaire*, with applicants being required first to 'qualify' economically as much as politically, then 2005 to 2010 would seem optimistic.

I offer the following thoughts. First, on **WHO**:

* There are great and growing differences between the candidate states; but there are also no sharp dividing lines between Central and Eastern Europe, or, for that matter, between Eastern Europe and non-Europe. On the former, the easy distinction into 'advanced' Visegrad Central Europeans and 'backward' East European rest does not hold up. Slovenia, for example, is better qualified than Slovakia. On the latter, the

trouble with Europe in the east is that it does not end, it merely fades away: across Russia and into Turkey.

*Never say never. It is counterproductive and unnecessary to say a definite 'never' to Russia or Turkey. The problem of a genuinely liberal democratic, stable, cooperative Russia, with the rule of law and a market economy, fulfilling all the qualifications for membership of the EU, and now asking for admission, is one we should sincerely wish to have. It would still be a problem, because Russia is so big, and half in Asia, but this is not a problem with which Russia seems likely to face us in the foreseeable future. We have a long way to go before we reach the disputed cultural-historical borders of the continent. We'll cross that bridge (or not) if we ever come to it.

*Geographical contiguity matters. It's silly to think of taking in, say, Estonia before Poland. We build Europe out from EU-rope. Greece is the exception that proves the rule.

*One thing leads to another. Because there is a continuum of potential members, the admission of one increases both the chances and the hopes of the next. A precedent is set, and there is a wider positive regional demonstration effect. If Poland comes in, Baltic hopes are raised, and so on.

*By the same token, it is short-sighted to imagine that you can merely tinker with the present institutions and procedures of the EU to make it just about still work with twenty members (adding, say, just Cyprus, Malta, Poland, Hungary and the Czech Republic). The structural changes we make now should at least potentially be extensible to an EU of twenty five to thirty states.

That leads on to **HOW**:

*All enlargements are different, but some are more different than others. This one is particularly different due to (a) the number of potential applicants; (b) the fact that most of the applicant states are post-communist, with economies suffering from special sorts of both under- and misdevelopment, including the lack of private property, capital, legal framework etc; (c) the geopolitical consideration of the relationship with Russia.

*The current EU White Paper and 'pre-accession strategy' do not provide either a clear enough timetable or clear enough criteria for applicants. Instead, they start from a maximalist catalogue of what applicant countries would have to do were they to join on the present terms of membership. On the most optimistic interpretation of how far and fast even the closest East Central European states could advance in the structural transformation of the economies, and crucially of their agricultural sectors, and the most optimistic interpretation of how far the present EU could progress in reforming the CAP, structural funds or renegotiating the budget, the two ends still won't meet.

*A more innovative, flexible and focussed approach is therefore called for. Among many proposals touted I would single out two:

(1) Peter Bofinger's proposal for a 'comprehensive accession strategy' concentrating on trade liberalisation. Bofinger proposes moving from current liberalisation to full removal of all specific safeguard clauses and anti-dumping measures on both sides. The EU 'would treat associate members in its trade policy like full members', for a five-year period, during which, however, the associates would have no voting power in the council and no access to the CAP and structural funds.

(2) The proposal made from various quarters to move forward from the present 'staccato dialogue' to a political 'partial membership' in the transition period. Thus, for example, selected aspirants might participate in parts of the inter-governmental second and third pillars. Since these are inter-governmental, and since to participate in one area of immigration policy or CFSP action does not require participation in all, this should be feasible. Other political staging posts might include observer status at the IGC or EMU, and, more imaginatively, a kind of 'dry run' participation in European elections, producing elected MEPs-in-waiting for the next European Parliament.

*Both elements, accelerated trade liberalisation and graduated political participation, are important ways of moving towards enlargement. When negotiations open after the end of the IGC, however, the subject of negotiation will be full membership. But what exactly does that mean? What is the essential minimum of membership? Given the near-impossibility of securing the consent of all current member states to the huge added

costs of a full East European (4, 6, let alone 10+) participation in CAP & structural funds, to keep that as a basic qualification for membership is to postpone membership for many years. The applicants would clearly have to sign up to the commercial, technical and legal rules and obligations of those economic parts of the Communities in which they did fully participate. But we should be prepared to consider even longer economic transition periods covering even wider areas than we did for the southern enlargement (including, for example, transitional restrictions on the free movement of labour). The essential minimum of membership is political: a solemn and binding commitment to abide by the rules and procedures of political, negotiated conflict-resolution which are at the heart of what the EU has achieved.

*There is an obvious problem: that the new members might then participate, via Councils, Commission or Parliament, in decisions about areas in which they did not themselves yet participate. Could this be met with a combination of suspended voting rights on some issues plus a calculated guess that they would not sway the decision substantially on others?

*This of course depends on the voting arrangements in force. Here is one of several points on which the *institutional reforms* under discussion in the IGC are - or should be - crucial to enlargement. Variants and areas of (double?) qualified majority voting; balance between large and small states (given that, except for Poland and perhaps Romania, all the first Central and East European 10, and, of course, Cyprus and Malta, are small); the number of commissioners; seats in and powers of the Parliament, etc. Pace British Eurosceptics, who favour enlargement-as-dilution, I submit that enlargement requires a strengthening or 'deepening' of existing EU institutions, an extension of majority voting, and a relative reduction in the blocking power of existing member states. Otherwise, the EU of 20+ will just not work. How and how much to be debated, but the basic thrust seems to me uncontested.

*For fun, but also quite seriously, there is the issue of the number of working languages. EU multiple-language interpretation as Keynesian job-creation measure or English for all?

And WHEN:

*It is politically imperative that at least one or two states have the prospect of joining within the next one or, at the most, two electoral terms of their parliaments or presidents. It doesn't have to be '2000'. '1992' showed the magic even of less round target dates. '2002'?

*It shouldn't be all at once, but it should be the beginning of a process open to all. Competition and the fear of being left out are healthy, the sense that a line has been drawn and you are the wrong side of it is not.

THE POLITICS OF ENLARGEMENT

1. Central and East European Politics

*The 'return to Europe' - that central slogan of the velvet revolutions of 1989 - remains the central strategic political orientation in Poland, Hungary, the Czech Republic, Slovenia and the Baltic States. Post-communists have accepted it. It is regarded as crucial to the stabilisation of their democracies, the successful marketisation of their economies (especially to attracting foreign capital), and the elementary security of their states, both from outside aggression and from internal destabilisation. 'Europe' remains even more important to these countries than it was to Spain, Portugal and Greece in their transitions from dictatorship. Elsewhere, for example in Slovakia, Romania or Croatia, this orientation is contested by important political forces.

*Even in the closest and most positive cases, however, there is widespread disillusionment with the Europe of the EU. Partly this is the inevitable disappointment of unrealistic expectations - nothing could live up to the Europe of their idealistic dreams. Partly it is a reaction to the social costs of economic transformation, which are associated with 'the West' and 'Europe'. Partly, however, it is justified by the reluctant response of the EU, and especially the slow and uneven opening of our markets, compared with the rapid opening of theirs.

*One cannot, therefore, count on this European orientation lasting indefinitely. The nationalist alternative is always present. The potential for tensions around ethnic minorities becoming inter-state conflict stretches into Central Europe (Slovakia/Hungary, Poland/Lithuania).

*The largest front-runner, Poland, has a specific political problem: a large, well-organised peasants' party which currently resists modernising reforms of agriculture. Some younger figures in the party do recognise the necessity. At the same time, this resistance is one factor pointing towards an alternative coalition between post-communist and post-anti-communist liberals, as has already happened in Hungary.

*Central and East European new members would probably favour the inter-governmentalist rather than the federalist orientation inside the EU. Václav Klaus is the obvious extreme case: more Thatcherite than Mrs Thatcher. But even left-liberal Poles and Hungarians are wary of surrendering too much of the sovereignty which they only recently regained, after long being forcibly deprived of it.

2. West European Politics

*The argument for EU enlargement is won in principle. This was not true five years ago. No-one now says 'no'; they say 'yes, but'. Or, in private, '*il faut toujours en parler et jamais y penser*', as a senior French businessman frankly put it to me.

*In practice there is immense reluctance from a majority of member states. Who is clearly for it? Germany, most importantly. Britain - but that's a mixed blessing for the project's reception elsewhere in the EU. Austria, Finland, Sweden? But France, crucially, has thus far been most reluctant, fearing dilution of the present community and its own influence within it, a shift of its centre of gravity eastward, and, of course, French farmers. Spain, Portugal, Greece and Italy worry about the potential loss of financial transfers from community budgets and about East European agricultural imports. All member states worry about competition from goods produced by East European cheap skilled labour, and a further inflow of that labour itself, when both conjunctural and structural unemployment inside the EU are so high. They also worry about a too rapid enlargement reducing the EU to little more than a free trade zone overseen by a League of Nations - the British Eurosceptics' dream!

*Germany's political elite now has a firm consensus on the proposition that eastward enlargement to include, at the very least, Germany's immediate eastern neighbours, is a vital national interest. Public opinion has yet to be convinced, as do German farmers and trade unionists. As German direct investment in Central and Eastern Europe grows, and as German manufacturers move their production across the borders to the east, so this strengthens the lobby for enlargement, and for trade liberalisation now.

*The crucial question for the balance of political will inside the EU is the French position. In what circumstances might this become more positive? Are there implicit trade-offs with Germany: enlargement for EMU? east for south? I look forward to hearing from Pierre Lellouche.

*Closely related to the above: what precisely are the interconnections with EMU? Of course there is no theoretical incompatibility between EMU and enlargement, but are there not practical reasons? Starting with a very simple one: that the complex and difficult business of preparing for enlargement requires huge amounts of politicians and officials' time, for which the complex and difficult business of preparing for EMU competes. Can we really manage both at once? On the other hand, if EMU goes ahead between a core group of member states it implies and requires a 'variable geometry', whether core- or polycentric, which arguably makes it easier to envisage the more flexible arrangements for new members adumbrated above. On the third hand, if EMU fails then we will be desperately in need of another large undertaking, to counter what could be a corrosive and dangerous sense of crisis around the whole European project, and enlargement is the obvious one to choose.

*The connection with the institutional reforms being negotiated in the IGC has been discussed above. There is also a close connection with the strengthening of common foreign, security and defence policies. Bosnia is definitely not 'solved'. Other Bosnias remain possible, less so among our immediate eastern neighbours, but much more so among their immediate neighbours. Participation in coordinated 'European' actions,

under whatever precise auspices. Is not just something we can offer them - as a piece of the enlargement cake - but something they can do for us. Witness, in a small way, their participation in Bosnia. At the same time, relations with Russia, Ukraine and Turkey should be intensified - with the longer-term perspective kept wisely vague - so that the politics of inclusion are not perceived as the politics of exclusion.

3. Global politics

*Beside the obvious question of the overall size and weight of the European trading bloc, vis-a-vis Asian and American ones, there is the question of economic models and competitiveness. Eastward enlargement to include post-communist economies could strengthen two possible directions in the European political economy. EU policies, including PHARE-supported programmes, could support the conversion of still bloated post-communist welfare states into a version of the current Rhemish social democratic model of 'social market economy'. Alternatively, dynamic cheap labour competition from Central and Eastern European could be a spur to intensify the fitness cure of that model in Western Europe, enhancing all-European global competitiveness. As mentioned above, many Western manufacturers are already voting with their plants.

*The issue of EU enlargement is plainly inseparable from that of NATO enlargement. How does a fast or slow track for one affect a fast or slow track for the other? What about a (pre-Chirac) French-style or a non-nuclear-stunning membership for Poland? How does this relate to strengthening a European pillar or 'defence identity'? If, with two eyes on Russia, we are to say to Poland or the Czech Republic 'come into NATO when you come into the EU', then we need a much clearer timetable and criteria for the EU enlargement. Do the NATO enlargement first, and both that time-pressure and the new members' security concern becomes less acute. The crunch for a parallel or tandem approach surely comes with the Baltic states. On political and economic grounds they would be well up in the second line of potential EU members. But can anyone imagine Russia, with its present policies, accepting the Baltic states' membership in NATO? Or, for that matter, the US Congress agreeing to offer the Baltic States the full NATO security guarantees? Next logic again clashes with windy life.

TGA, 14.v.96

For example, China will soon overtake the United States as the world's largest emitter of greenhouse gases. Clearly, no effort to moderate the damage to the global environment can hope to succeed unless China is fully a part of it. Despite intense interest in environmental issues in Europe and North America, however, no concerted international effort to engage China in environmental dialogue and cooperation has yet been mounted.

China's rapidly growing exports and internal market continue to develop to a considerable extent outside the norms of the global trading system. This is creating vested interests in patterns of Chinese economic behavior that disrupt and damage trade and investment with the industrial democracies. The fact that China is not a member of most multilateral regulatory regimes leaves Beijing free to ignore complaints from its trading partners until they escalate into bilateral confrontation. In such raw tests of power, only a major trading partner like the United States has much chance of prevailing. As China's economic prowess grows, Beijing's bargaining power will also grow, making bilateral solutions to problems with China that are of wider international concern even more problematic. Yet the West has no apparent strategy for achieving China's integration into the multilateral institutions it hopes will regulate the post-Cold War international economic order. Almost without exception, institutions formed since the end of the Cold War have excluded China.

China is already an exporter of high technology goods, many of them with military applications. As the Chinese economy becomes more sophisticated, such exports will greatly increase. Clearly, no effort to regulate trade with "rogue states" or in technologies relevant to weapons of mass destruction and their delivery systems can hope to succeed if China remains outside it. The limits of what can be accomplished by bilateralism are already apparent. Consider, for example, the decidedly mixed record of unilateral American attempts to regulate exports of Chinese nuclear and missile technology to Pakistan. As China grows, the bilateral leverage of the United States and other countries over it can only diminish. Yet there is no effort being made to bring China into membership in (and hence into compliance with) the multilateral regimes that attempt to regulate the international transfer of sensitive technologies.

Finally, China's opening to the outside world and the concomitant collapse of Chinese totalitarianism have allowed the emergence of transnational Chinese criminal gangs. Such gangs are now involved in the drug trade and the smuggling of Chinese emigrants under conditions approximating those of the eighteenth century African slave trade. They are developing linkages to organized crime in Russia, Europe, and the Americas. The full cooperation of the authorities in Beijing with multilateral institutions like InterPol is essential to deal with these problems. The Asia-Europe Meeting has created a multilateral forum joining European and Asian customs officials in discussion of them. Yet the principal markets for drugs and destination of illegal migrants are the United States and Canada, which are not part of this forum.

A persistent problem in dealing with China is the inability of the central government in Beijing to obtain the compliance of provincial and local authorities with the agreements it

concludes with foreign governments. The current difficulties over intellectual property rights are a case in point. China lacks the legal systems, including the courts, trained judges, and legal enforcement mechanisms that more developed countries can rely upon to implement effective controls over commercial behavior. Everyone knows this to be the case. Even the Chinese will admit it when embarrassed into doing so. Yet there is no concerted international effort underway to aid China in law and administrative reform or in public administration and judicial training.

The absence of an international strategy by which to promote China's adherence to the norms fostered by global institutions is especially striking given the success efforts to integrate China into the world order registered in the 1970s and 1980s. China can, of course, be counted upon to bargain for privileged status and exemption from the rules applied to other countries. Nevertheless, once admitted to a club, the record shows, China works hard to learn, adopt, and apply the club rules. China's socio-economic transformation over the past two decades owes much to its admission to institutions like the IMF, IBRD, ADB, and the UN specialized agencies, and to its subsequent adoption of the modes of analysis and policies they favor.

The lack of a Euro-American (and Japanese) strategy for speeding China's integration into global institutions and Chinese effective application of global norms is potentially very serious, given the high stakes involved. It cannot be in the world's interest to wait to begin managing the consequences for the international state system of China's rise to wealth and power. Problems are accumulating, not diminishing. China's bargaining position is strengthening, not weakening.

The Politico-Military Challenge of China

As China's wealth grows, both its military power and political influence are also growing. The implications of this for the Asia-Pacific region are well understood by China's neighbors. Without exception, they seek economic benefits from closer ties with China, while keeping a wary eye on Beijing as they move to accommodate it politically. China now enjoys its most cooperative relations with Southeast Asia in 500 years. China's relations with Russia are the most mutually respectful in over 300 years. Its relations with Europe, including Europe's great powers, are the most satisfactory to it in nearly two centuries. Beijing's relations with New Delhi are the least strained since the 1962 Sino-Indian border war. Its relations with Islamabad and Dhaka are as sound as ever. Despite an audible undercurrent of Japanese concern about China, Sino-Japanese relations are as good as they have been in a hundred years. Yet two centuries of weakness have left China with many points of dissatisfaction.

China is now the only great power to have had major portions of its historical territory and

status quo because the only way they could envisage it changing was by Taiwan's drawing closer to them and eventually accepting their leadership of a loosely reunited China. They sought to promote interdependence and dialogue across the Strait to advance their long-term objective of negotiated reunification.

By 1995, however, Beijing had become deeply concerned that Taiwan's democratic politics were centering on the quest for an identity separate from China. Responding to popular opinion on the island, the leadership in Taiwan began to provide inducements to third world capitals to allow the establishment of Taipei embassies alongside Beijing's diplomatic representation. Taipei redoubled its efforts to upgrade its representation in the capitals of great powers. It vociferously sought a separate seat in the United Nations General Assembly. The Taiwan leadership launched a campaign of nominally private but very political travel abroad to raise Taiwan's international profile. Beijing concluded that Taipei was bent on acquiring the attributes of independent statehood on the diplomatic installment plan. Notwithstanding Taipei's protestations of fidelity to the principle of "one China," Beijing saw Taipei's efforts as crafting a basis for long-term separation from China. This conclusion was buttressed by the main opposition party in Taiwan's open espousal of independence. From Beijing's perspective, Taipei's actions threatened to alter the status quo in such a way as to preclude peaceful reunification.

Taipei's efforts to expand its options gave Beijing a sense of urgency about the Taiwan question it had previously lacked. When political warnings failed to deter Taipei, Beijing resorted to intimidation through military measures short of war, such as exercises and missile tests that underscored Beijing's ability to strangle Taiwan's economy. These measures were intended to force Taipei to reverse course or to come to the negotiating table. Chinese posturing, however, belatedly evoked countervailing shows of force by the United States, neutralizing Beijing's pressure on Taipei to negotiate.

American naval deployments were undertaken to underscore the longstanding interest of the United States in a peaceful, rather than violent, settlement of the Taiwan question by the Chinese themselves. They were not intended to signal support for Taiwan independence. Ironically, however, by making it clear that the United States would counter and offset Beijing's use of measures short of war to force Taipei to the negotiating table, U.S. actions have greatly diminished the prospects for peaceful reunification. If Beijing cannot force Taipei to the table, and the United States will not, it is highly unlikely that Taipei will ever negotiate. From Beijing's point of view, China now has only two options: doing nothing while Taipei works toward a "two Chinas" or "one China, one Taiwan" outcome, or going to war for reunification, despite the danger that the United States might be dragged into the conflict. Revising this calculus is now an urgent task for American diplomacy.

Even political dissidents in China see the Taiwan issue as a quarrel among Chinese, to be settled by Chinese without foreign interference. Resentment of American intervention in "China's internal affairs" is high. Beijing is on the verge of embarking on the long-term military build up necessary to acquire the ability to overrun Taiwan even against U.S.

population detached from it by the military intervention of other great powers¹ -- European powers in the cases of Macao and Hong Kong, Japan and the United States in the case of Taiwan. Beijing is determined to reunite these disparate Chinese societies under a single sovereignty, if not a single politico-economic system. China will accomplish such reunification through negotiations, if possible (as it has proven to be for Hong Kong and Macao), or by force, if necessary (as India did with Goa and Indonesia with Irian Jaya and East Timor).² The peaceful reversion of Hong Kong and Macao to China will occur in 1997 and 1999, respectively. The question of Taiwan's relationship to the rest of China remains unsettled.

China is also the only great power to lack secure and recognized borders with most of its neighbors. China has now settled all of its inner Asian frontiers through negotiations with Russia and the newly independent Central Asian states. The list of Chinese border disputes remains, however, the longest such list in the world. China has unsettled economic zone (seabed) boundaries with both North and South Korea. It disputes the Senkaku (or Diaoyutai) archipelago with Japan. China contests sovereignty over islets and reefs throughout the South China Sea with Vietnam, the Philippines, Brunei, and Malaysia. Its claims to economic zones in the South China Sea generate a seabed dispute with Indonesia. The Sino-Indian border has been established *de facto* but not *de jure*. China is determined to define secure and recognized borders with all these neighbors by negotiated territorial adjustments as in the case of its inner Asian frontiers, if possible, or by military action to defend its sovereignty, if necessary.

Unlike reunification with Taiwan, none of these border issues requires major territorial or politico-military adjustments for its resolution. Sino-Korean differences must in practice await Korean reunification for their resolution. Neither China nor Japan has so far seen any pressing reason to address the question of sovereignty over the Senkakus. A Sino-Indian border settlement is implicit in the status quo and could be formalized whenever the two sides are politically inclined to formalize it. China's full acceptance of the Law of the Sea Treaty (expected to be ratified by the National People's Congress later this year) will provide a legal framework for negotiation of claims in the South China Sea. China's neighbors have few concerns about its actions in the short term. They are all concerned, however, that China's military power relative to them is steadily growing. This has given them an incentive to explore solutions to territorial issues that China has heretofore seemed to lack.

The reemergence of military tensions, including Sino-American naval confrontation, in the Taiwan Strait has changed this situation. Until 1994-1995, Chinese leaders (like most politicians in Taiwan) believed that Taiwan had only two conceivable futures: the status quo (as it might be amended by cross-Straits interaction) or reunification. In these circumstances, Beijing felt no sense of urgency about the Taiwan issue. China's leaders could live with the

¹ Japan, of course, disputes sovereignty over the four "Northern Islands" with Russia. Spain and the United Kingdom have differences over Gibraltar. These disputes do not, however, involve significant populations or extensive territories. Nor do they have the emotional force of China's claims to Macao, Hong Kong, and Taiwan.

opposition. China's recent embrace of Russian positions on various international issues, including NATO expansion, provides a basis for expanded military cooperation with Russia while calving China's northern flank.

As Beijing increases its military capabilities against Taiwan, it will not abandon its efforts to achieve reunification by peaceful means. It will continue to attempt to intimidate Taiwan into negotiations while seeking to minimize the resulting strain in its relations with the United States. At the same time, it will wish to limit collateral damage to its relationships with its Asian neighbors from tension and possible conflict in the Taiwan Strait. As a result, China is likely to pursue compromise on South China Sea territorial issues (and perhaps even the Senkaku dispute) as it did with Russia and the newly independent Central Asian states. By eliminating potential sources of conflict with the members of ASEAN and Japan, China can hope to provide reassurance that its aggressive stance on the Taiwan issue is *not* *generis* and without wider implications for the region. Beijing's most recent military procurement decisions, as well as its diplomatic overtures to Southeast Asia, are consistent with such a strategy.

These ominous trends might, of course, be reversed were Taiwan to be persuaded that it should enter into active negotiations on reunification with Beijing or otherwise provide convincing reassurance that it does not seek a future distinct from association with China. Taipei is, however, unlikely to seek to accommodate Beijing in this manner. Nor are foreign governments likely to be willing or able effectively to press it to do so. Taiwan will continue to attract Western and Japanese sympathy as a democratic underdog menaced by the communist dictatorship on the Chinese mainland. This will stimulate widening concern about the implications of rising Chinese military power — no matter what Beijing does to allay such concerns.

In terms of deployed forces and raw combat power, if not in terms of technological prowess or power projection capabilities, China is already the preeminent military power in Asia. (The recently reaffirmed U.S. forward presence in Japan and the surge capabilities it facilitates are a potent qualifier to this Chinese military ascendancy.) Chinese defense expenditures have heretofore been relatively low in relation to GNP. Most of China's neighbors (e.g., Russia, Japan, Korea, Taiwan, and even India — let alone the U.S. armed forces in the Western Pacific) have far more advanced capabilities than the PLA. China is determined eventually to match the forces on its borders, but has deferred military modernization while building the economic base for it. In constant dollars, Chinese defense spending grew hardly at all over the past decade. (Nominal budget increases to keep pace with high rates of inflation led the press to perceive increases where none had yet occurred. China's secrecy about its defense budget and force structure aggravates its neighbors' tendency to exaggerate the growth in Chinese military power.)

The relatively low priority assigned to military modernization over the past decade and more reflected Beijing's judgment that the short-term risk of a major conflict on China's borders was slight and that a resolution of the Taiwan issue could, like the Hong Kong and Macao

questions, be peacefully achieved. Recent events in the Taiwan Strait have clearly altered these judgments. The Chinese defense budget is likely to rise accordingly, though the focus of PLA modernization will shift largely to building the eventual capability to conquer Taiwan. Strategic nuclear forces and other weapons systems with the capacity to deter U.S. intervention in any battle for Taiwan are similarly likely to receive much greater emphasis in PLA modernization. Notwithstanding China's single-minded focus on Taiwan, its greater emphasis on military modernization will accelerate its acquisition of significant force projection and strategic weapons capabilities, speeding its emergence as a world, rather than just a regional, military power.

Is China Analogous to the Soviet Union?

The prospect of a more powerfully assertive China inevitably awakens memories of the recent Euro-American struggle with the former Soviet Union. It leads to speculation that China, like the Soviet Union, may disintegrate. (One of the unfortunate byproducts of the collapse of the Soviet Union is that, having lost their jobs, many Western specialists on Soviet affairs turned to Sincology. Having failed to predict the Soviet Union's collapse, they seem determined to anticipate China's. Having given Moscow's intentions the benefit of every doubt, they appear determined to brand Beijing as an enemy before it can reveal itself to be one.) It is, however, a mistake to draw many analogies between the USSR and the PRC.

The Soviet Union was a multinational empire, established by czarist and communist conquest from Moscow. Its dominant Russian nationality was a bare majority within its imperial structure. The Soviet Union was driven by the impulse to spread its ideology wherever opportunities presented themselves. To that end, it maintained a huge military presence in satellite states along its borders. Moscow's strategic ambitions led it to provide expensive military and economic assistance to like-minded states as far away as Cuba and southern Africa. Rigid central planning ultimately produced a declining economy unable to bear the very high level of military spending the Soviet state demanded. Until its final days, Moscow sought to overthrow the international status quo and impose its own, rather than to join the existing international order and its institutions.

By contrast, China grew to its present borders over the course of millennia of gradual expansion and assimilation of minority peoples. The 94 percent of the Chinese population who consider themselves Han share a nationalist passion for unity, order, and international respect for their country's historical borders. They have no sympathy and even less tolerance for efforts by Tibetans or other minority peoples within these borders to exercise self-determination. They do not seek to bring additional non-Han peoples into their polity. Contemporary China has no ideology it can explain to its own people, still less an ideology it seeks to export to others. It has no satellites and maintains no forces beyond its borders. China's increasingly decentralized economy is the fastest growing in the world. Its defense budget could be greatly increased without putting much if any strain on its economy. China seeks to join the existing international order, not to overthrow it.

Nor is China likely to disintegrate as the Soviet Union did. Economic growth has indeed altered the relationship between the central and provincial authorities. As acquisitive individualism succeeded austere communitarianism as the national ethos, the Chinese Communist Party lost much of its discipline, along with its ideology. In the absence of government institutions to replace it, the provinces, to some extent, went their own way. In the early stages of economic reform, new challenges to government posed by the requirements to manage a market economy were met, if at all, largely at the provincial, rather than the national level. Beijing is, however, now well along in its efforts to create the central institutions necessary to manage an increasingly dynamic and integrated national economy. Resistance to this recentralization by the provinces has not led to separatist sentiment. On the contrary, the spirit of nationalism is on the rise throughout China. This makes it less likely than ever that Beijing will tolerate separatism in regions with substantial populations of ethnic minorities, like Tibetans or Uighurs.

Finally, the Soviet Union was a horrifying violator of the human rights of all whom it controlled. For all the Western pressure on Moscow on human rights issues, it took the collapse of the regime to bring about significant improvement. Unlike the former Soviet Union, however, China is carrying out far-reaching economic and social reforms. These may or may not lead in time to political reforms, as happened, for example, in the formerly Leninist Chinese society on Taiwan. Nevertheless, it is arguable that the course of events elsewhere in East Asia will prove to be a better predictor of China's future than that in the Soviet Union. (If so, a policy based on protest of egregious incidents while assisting the process of institutional reform in China, similar to the approach followed in Taiwan and South Korea, could work better than a policy based on pressure and protest alone.)

In short, Beijing does not think or behave like Moscow when it was the capital of the USSR. China is not an implacable foe of the West or the world order the West has created. The PRC is unlikely to follow the USSR into disintegration and collapse. The challenge to the world posed by the rise of China is different. In some ways, it may prove more daunting.

Conclusion

Nearly two centuries ago, Napoleon advised his fellow Europeans, "let China sleep. When it awakens, it will shake the world." There is now no prospect that China will return to the slumber of past centuries. The twenty-first century will see China resume its traditional pride of place among the world's societies. The question before Europeans and North Americans is not how to prevent what cannot be prevented. It is how to ensure that the rise of China in the new millennium buttresses rather than erodes the international system we have constructed with such difficulty in this century. To that end, we must urgently consider how to speed China's integration into existing institutions on acceptable terms. Equally important, we must decide how best to ensure that China's determination to rectify the borders imposed upon by the ages of imperialism, fascism, and the Cold War does not lead to long-term confrontation and strategic realignments adverse to Western interests.

How and How Much Can
the Western World
Grow Economically?

by

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Introduction

The slow growth spectre haunting the OECD countries changes appearance as it crosses the Atlantic and the Pacific. Despite the common provenance, these differing features make the problem of coping with slow growth more difficult. Arguably, no greater challenge has faced the Western democracies since the end of the Second World War. But unlike that period, the shared norms which underlay the construction of the international architecture of global cooperation are themselves in question.

The growth projections for the OECD countries over the next few years are in the 2-3% range, significantly lower than the near double digit rates for many non-OECD countries, especially in East Asia. For most OECD countries (excluding Japan) these growth rates are not markedly out of line with historical experience since the mid-1970's. So why the mounting concern? One reason is rising unemployment in Europe and growing earnings inequality in the U.S., so slowing growth has been accompanied by increased inequity. More fundamentally, slowing growth has added to the already formidable difficulties of adapting to two pervasive and ongoing structural transformations -- the revolution in information technology and the deepening integration (globalization) of the world economy. Adapting to change is far easier in a growth-friendly environment, as the experience of the first two decades after the War so clearly demonstrates.

The remainder of this paper will situate the growth problem in this broader context. I will try to highlight four main issues for discussion: the role of macroeconomic policies; the sources of long-term growth; increasing labour market inequality; trade policy and globalization.

Macroeconomic Policies: Room to Manoeuvre?

While the two macroeconomic policy levers -- fiscal and monetary policy -- do not directly determine the long-term growth rate or growth potential of an economy, they can influence shorter term performance. When the economy is growing below its long-term trend, an easing of either or both will increase the growth rate but risks igniting inflation once excess plant capacity disappears and unemployment is reduced. As a

proxy for estimating this ceiling, economists have devised a measure termed NAIRU (the non-accelerating inflation rate of unemployment). While in theory there are two macro growth instruments, in today's reality there is virtually no room for fiscal easing since all OECD governments are grappling with deficits, debt and pensions for the aging baby-boomers. So the macro debate focuses on one question: should monetary policy be eased so that interest rates will decline and growth can be speeded up?

As a good example of the differences within the OECD, there is a vigorous and heated debate in the U.S. about the NAIRU (is it 5-6.3 percent or 5.1 to 7.7 percent or —??). In layman's terms, is the American economy at full employment or could the Fed ease monetary policy with little or no effect on inflation? In Europe, by way of contrast, the debate has centred on how to reduce the high and persistent levels of long-term or structural unemployment — hardly a matter for Central Bankers. Insofar as the question of monetary policy has been engaged, it has become intertwined with the policy debate on European Monetary Union or EMU. More specifically, the question has been: can the fiscal consolidation necessary to meet the EMU "convergence criteria" be offset by easier monetary policy and what then do we do about exchange rates? In Japan, where there has been significant monetary and fiscal easing in recent years, as yet with little positive impact on growth, the role of macro policy seems less and less relevant in the face of an acknowledged need to overhaul the entire postwar development model.

So what is a reasonable answer to the question: does macro policy provide some sort of escape hatch for the slow growth dilemma? At the risk of sounding a shade equivocal I'd say "probably not". The modest equivocation stems from two sources. One concerns NAIRU. Since it is impossible to estimate a precise measure and since structural changes such as increasing international competition, weakened labour unions and growing concern about job security may well have lowered systemic inflationary pressures, the room to manoeuvre for skilled Central Bankers may have increased somewhat. But, as an offset, "monetary fine-tuning" is now increasingly constrained by rapid financial market response to policy shifts. So the margin

room to manoeuvre in the U.S. is probably in the range of $\frac{1}{2}$ to 1 percentage points for perhaps as much as a year. Because the impact of structural change can't be easily estimated and varies among countries even this rough guess would be difficult to substantiate.

My second qualification concerns fiscal policy. While overall fiscal constraint is a given for the foreseeable future, this does not preclude changes in taxation and expenditure designed to enhance longer-term growth prospects by, for example, increasing savings as a share of output. This raises a different question from the short-term room-to-maneuvre conundrum: how can governments, by fiscal or other policies, influence the economy's growth potential?

Sources of Growth

During the Golden Age -- roughly 1950-73 -- growth rates in the OECD countries far outstripped their inter-war average. In Europe and Japan rates quadrupled, mainly because of catch-up with U.S. technology and the reduction of trade barriers through successive rounds of GATT negotiations. In the U.S., dominant in both mass production industries and new technologies generated by defense research, there was no room for catch-up, but innovation in the new high tech sectors, as well as expanding world markets, provided a significant boost to growth and the standard of living of all Americans.

The marked slowdown after the first OPEC oil shock in the mid-seventies stimulated a renewed interest among economists in a long-neglected subject of economics, the causes of growth -- a subject which had greatly interested their classic forefathers (who were witnesses to the first Industrial Revolution). During the 1970s and 80s a virtual flood of empirical studies explored the role of investment, labour and technology in generating growth and rising living standards. By the end of the 1980s the "new growth theory" began to challenge the dominant neo-classical assumption that technology was an exogenous free good (mana from heaven). This has, in turn, generated another torrent of studies about the role of technology, or more broadly, knowledge, in the innovation process.

While it would be premature to say that a new consensus has emerged about the causes of growth, there is today a general agreement that technology and the innovation process centred in the firm are the main engines of wealth generation. While increases in growth inputs — savings and labour or human capital — are essential, a continuing improvement in the efficiency with which such inputs are combined (termed Total Factor Productivity or TFP) is the main long run determinant of growth and living standards. (Indeed, with labour force growth slowing in all OECD countries because of aging population, the importance of increasing productivity is even greater than in the past). As Table 1 shows, the sharp decline of TFP in the 1970's has been halted but the subsequent pick-up in the 1980's and early 1990's is, at best, modest. This modest improvement is strikingly paradoxical since it coincides with accelerating change in information technology — change so pervasive, indeed, that information is becoming a basic economic resource and a force restructuring society.

This "productivity paradox" has added significantly to the growth policy dilemma facing OECD governments. Technological change will raise long term growth rates — eventually. But in the transition to a new growth path there will be a mismatch between the demand and supply of labour and, hence, structural unemployment or other labour market maladies. An effective and timely supply side response can mitigate these transitional problems but requires significant adaptation of the education and training infrastructure. But that may be more difficult than it appears at first sight. This is worth explaining.

One characteristic of the IT revolution has been innovation in the form of the enterprise, as evidenced by the ongoing restructuring and the re-engineering phenomenon. This enterprise innovation has already taken place in many manufacturing sectors and has shown up in increasing productivity gains (see Figure 1). In the U.S. manufacturing productivity is almost back to its postwar rate. Thus, the drag on TFP has been entirely due to the service industries, which have invested so heavily in the new technology with scant results by way of higher productivity. Granted, productivity measures are hard to devise for services: yet the

specific training programmes but about how to develop policies of lifelong learning. The costs of failure are best summed up by the term digital-divide -- a cumulative and potentially irreversible division of the workforce and society into haves and have-nots. While no OECD country has developed a comprehensive policy of lifelong learning, many have launched pilot projects, often in cooperation with private firms, using information technology in schools and adult training. Whether and when these small projects will result in radical reform is impossible to predict. Moreover, effective programmes can be costly and in the policy-making process short-term costs often outweigh long-term and essentially uncertain benefits.

The story to now has argued that neither macro or labour market policies are panaceas for the slow growth dilemma. The third policy option is trade: will more open markets deliver the needed spur to more buoyant growth?

Globalization

"You taught me language: and my profit from it is, I know how to curse."

William Shakespeare, "The Tempest"

Trade liberalization, or more accurately globalization (see below), is part of the problem, especially for the least skilled. But if the losers could be compensated (a big if) is globalization also part of the solution?

During the Golden Age, OECD trade grew more rapidly than output as prewar border barriers were dismantled. Rising income usually leads to an expansion of trade but trade liberalization can increase the efficiency of firms through increasing competition pressure and so trade can raise growth potential. Higher growth will increase trade. And voilà, the virtuous circle of the Golden Age.

The contribution of trade to long-run growth potential depends on its contribution to total factor productivity. If trade is a significant proportion of total output in any country, increasing intra-industry trade will stimulate innovation as international rivalry for specialized products intensifies. But, in general, the main determinants of TFP, as noted earlier, are domestic policies. And trade is unlikely to affect either domestic

market policies designed to facilitate adaptation and mitigate the negative impact on the losers.

Getting into the innovation policy debate would take us too far afield. Suffice to say that the conflict between what is termed technoglobalism and technocratism is far from settled. But the more fundamental disagreement within the OECD — the essence of the transatlantic divide — centres on labour market policies. As someone has said it's a choice between unemployment in Europe and poverty in the U.S. This is a bit of a caricature, of course, but not too far removed even from some academic discussion.² While recognizing the need for more deregulation to reduce the impediments to adjustment, there is a strong reluctance to adopt the much more flexible American labour market model. Two arguments are made in favour of the European model: high real wages are a stimulus to innovation and, more importantly, the impact of unemployment on social cohesion can be more easily contained by policies such as training combined with wage subsidies, etc. Of course, one can question both these arguments but the issue of social cohesion — a negative 'externality' of flexibility — should not be dismissed. In the design and evaluation of training programmes for the unemployed, for example, it would be important to take into account the costs of not training, such as criminal activity.

More broadly, the issue of the government's role in labour force training is now under review. Evaluation studies have suggested that many programmes have little impact on unemployment. Since all OECD governments are under fiscal pressure it will be tempting — especially in the U.S. and, via locational competition, in the other OECD countries — to rely on private sector efforts on the grounds of efficiency as well as fiscal prudence (a recent article in the *Economist* puts this case most strongly³). Yet to do so without considering the full implications of the information technology revolution and the ongoing restructuring in the private sector would be extremely dangerous. The debate should not be about the costs and benefits of

² See especially CEPR, *Unemployment: Choices for Europe*, London, 1993.

³ 'Training and Jobs', *Economist*, April 6, 1996, pp. 19-21.

savings or labour input in any significant fashion.

But it's important not to equate trade liberalization -- mainly the reduction or elimination of border barriers -- with globalization, a term first used in 1985. It was the investment surge of the 1980's, most of it in capital- and technology-intensive sectors which began a new phase of international interdependence or deepening integration of the global economy. While the investment surge of the second half of the 1980's slowed down in the early 1990's (because of recession in key countries) it has started to pick up again with a decided tilt to East Asia.

For the multinational enterprises, increasingly the dominant global actors especially in high-tech sectors, market entry by means of trade and investment is essential in order to capture economies of scale and scope, customize products to satisfy consumer tastes and generate inter- and intra-corporate networks. These networks, which distribute different parts of the production process on a regional basis, are most evident today in the Japanese electronics sector in East Asia, but are rapidly spreading to other manufacturing sectors. This has raised fears of "hollowing out" in Japan. Does it matter which part of the production process is located in any given country? The "hollowing out" syndrome and the proliferation of incentives for "good" investment suggest many countries believe it does.

All this makes clear that traditional trade models are inadequate tools to estimate the impact of globalization. For the MNE's from the OECD countries increasing liberalization (which includes trade, investment and a number of domestic policies) will spur competitiveness. But it's not clear what the effect would be on immobile factors -- i.e., labour -- in any given country. Nor is it clear how the benefits will be distributed among countries. This, as we have already noted, is likely to create conflict between a globalizing corporation and its home or host country. For the OECD countries as a whole, however, increasing specialization in sectors of comparative advantage -- high tech manufacturing and services -- would improve their terms of trade and thus their living standards while raising the living standards of the newly-

industrializing countries. In sum, globalization may exacerbate problems of structural adjustment in the OECD, and cannot provide a panacea for its slow growth problem, but it is infinitely better than the logical alternative, which is new forms of protectionism.

Conclusion

I'm tempted to sum up this paper by recalling a saying about economists:

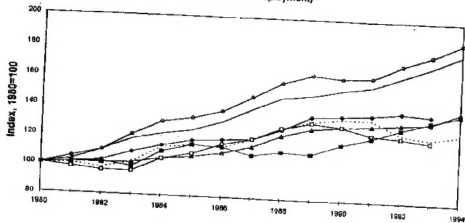
"When an economist admits there's no quick fix he (or she) means there's probably no long-term solution."

But that's not exactly what I meant to convey, although I would admit that the review of policy options proffered more questions than answers. But let me try to clarify what I really meant.

In theory, the recipe for boosting growth is no great mystery: increase savings, invest in human capital, promote global liberalization of trade and investment and improve productivity. True, the results won't appear for a longish time. And, also true, there will be significant transition problems which may produce serious social and political fallout. But these transition problems can also be handled: compensate the losers and improve the adaptability of the institutional and industrial infrastructure. Of course this will cost money and fiscal constraint is essential in all our countries. And locational competition among our different market models (and, yes, East Asia as well) does create some difficulty in reaching a shared view of the road ahead. But, let's not forget that our founding fathers created the OECD with three objectives in mind: growth, social cohesion, and democracy.⁴ We all know agreement on objectives is fraying. But surely strong leadership, which created the postwar architecture of international cooperation, can redefine and renew a shared vision of the road ahead? After all, where there's a will there's a way. Isn't there?

⁴For a full exposition see Rolf Dahrendorff, "Foundations of Democracy", *The Responsive Community*, Vol. 5, Summer 1995.

Figure 1
Manufacturing Productivity
(Production/Employment)



United States Japan Germany France United Kingdom Italy Canada

Source: OECD, *Industrial Policy in OECD Countries: Annual Review, 1992, 1993, 1993 and 1994* figures from OECD, *Industry and Technology Scoreboard*, Indicators, 1995.